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Conference Board Report No. 864 Printed in U.S.A.

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ISBN: 0-8237-0307-X

Cover by
VIRGIL KOCH

R4105-48

The U.S. Economy to 1990

by Lora S. Collins

with contributions from Eva Culen and Ken Goldstein

A Chartbook from The Conference Board

Why This Report

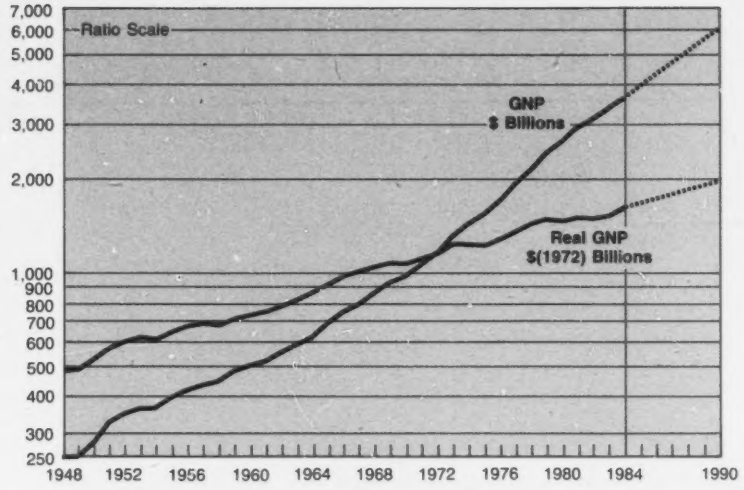
The Conference Board has been analyzing and forecasting the U.S. economy for many decades. Most of these efforts focus on the business cycle—the current situation plus projections for a year or two ahead. Less frequently we examine the longer term outlook, looking through the cyclical patterns at the underlying trends. This publication is the fifth in this longer focus series.

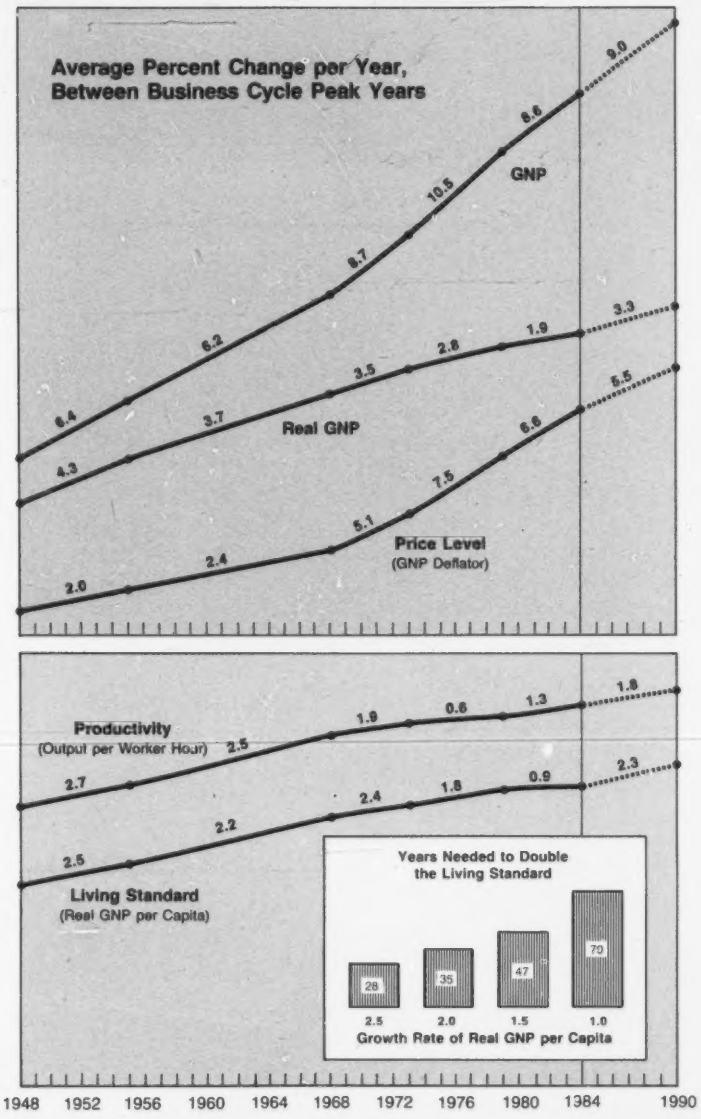
The early decades following World War II exhibited remarkable stability. Over the past 20 years, however, a greater degree of turbulence has emerged—not in the business cycle itself but in inflation, interest and international exchange rates. What had been a healthy and fairly steady growth of productivity gave way to an anemic performance through the 1970's.

This increased volatility creates serious risks in trying to anticipate the course of the economy to 1990. Most crucial, perhaps, is the risk that the massive twin deficits of today's economy—the internal deficit in the budget and the external deficit in our international economic accounts—will result either in more stagnation in productivity or a new burst of inflation and interest rates, or both.

The projections presented here are both optimistic and cautious. They are optimistic in assuming no major international or financial upheaval. The assumption that the budget will be brought closer to balance in a lasting way may also be optimistic. At the same time, the projections are on the cautious side in not assuming a return to the zestful growth of the early post-World War II decades. Whatever the actual outcome, we are confident that this chartbook provides a comprehensive and systematic framework for thinking about the overall economy in a way that will be productive for long-range business planning.

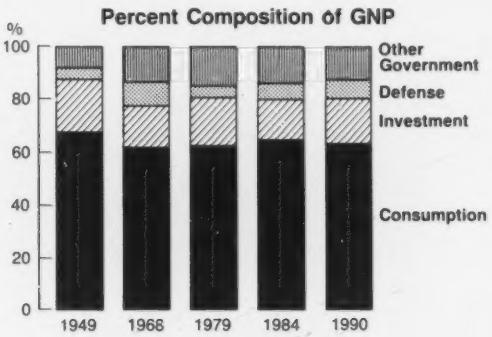
JAMES T. MILLS
President

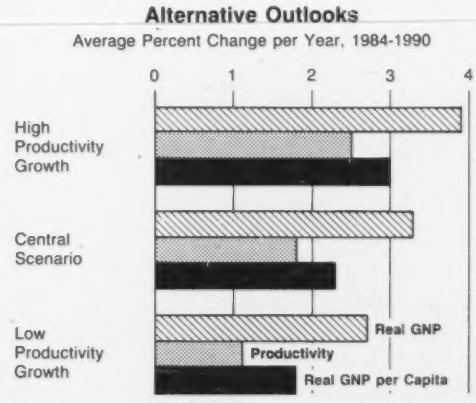




The U.S. economy has been expanding for more than two years, but its performance for the preceding decade or more was volatile and not very satisfactory. The inflation rate was persistently high and the economic growth rate low. A sentiment developed that Americans would have to scale back their economic goals and expectations. The sense of narrowed horizons was particularly widespread in the early 1980's, when the economic scene was dominated by two recessions virtually back to back.

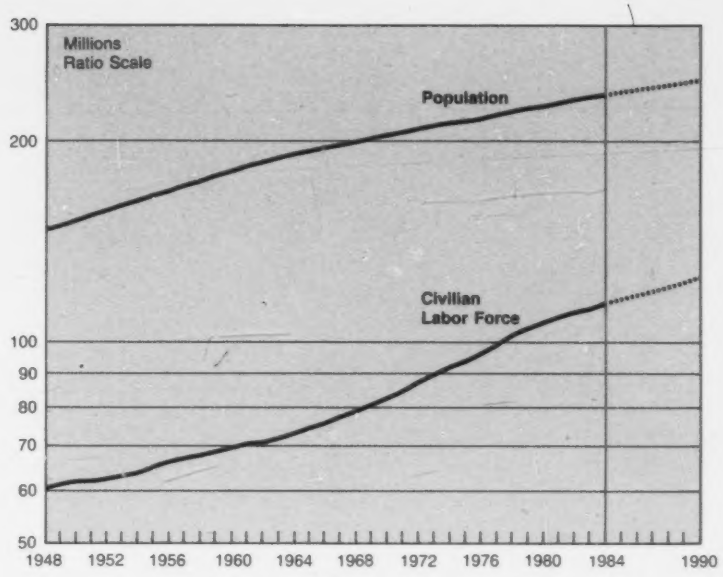
The improving economic news of the past two years has dissipated much of the gloom. But how much economic optimism is realistic? Will the years ahead disappoint us with a return to low growth rates, a stagnant living standard, and soaring prices? Not necessarily. The American economy has at least a fighting chance of turning in a satisfactory performance between now and 1990, and if it does, the foundation will have been laid for a continuation of favorable trends on into the 1990's. The key elements of a "satisfactory performance" are the avoidance of severe volatility in the economy and the achievement of better growth in living standards than was recorded in the 1970's and early 1980's. A

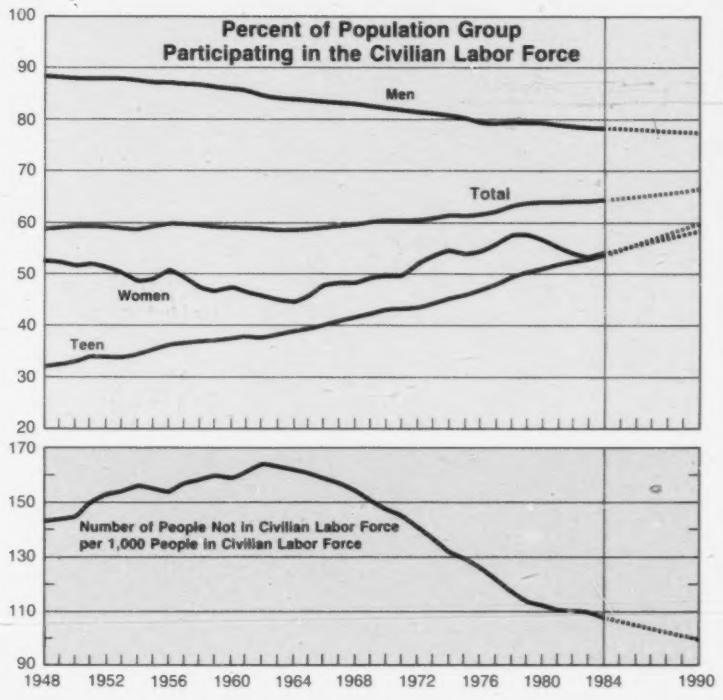




rising living standard is represented by growth in the per capita amount of national production of all kinds of goods and services, that is, by growth in per capita real gross national product (real GNP). The measure is in "real" terms to eliminate gains due solely to rising prices.

A rising living standard is relevant not only to personal well-being, but also to the achievement of public goals here at home and to the discharge of the nation's responsibilities in the world. U.S. society, in its heterogeneity, is probably especially ill-suited to dividing up a stagnant total income among competing goals and groups. A total that is growing faster than the population—that is, a rising per capita real GNP—is much preferable. From 1948 to 1973, real GNP per capita rose at a trend rate of 2.3 percent per year. From 1973 to 1979, the trend was 1.8 percent, and from 1979 to 1984 only 0.9 percent. It is quite possible to regain a 2.3 percent annual uptrend in the living standard in the years 1984-1990. Indeed, a trend of that magnitude is the bottom line in the core projection presented in this report. (There are many references in this report to trends over periods of years. The years used as starting and ending points—1948, 1955, 1968, 1973, 1979—were chosen on the basis that they marked business-cycle peaks. The trends are thus calculated between pairs of years with broadly similar cyclical characteristics.)



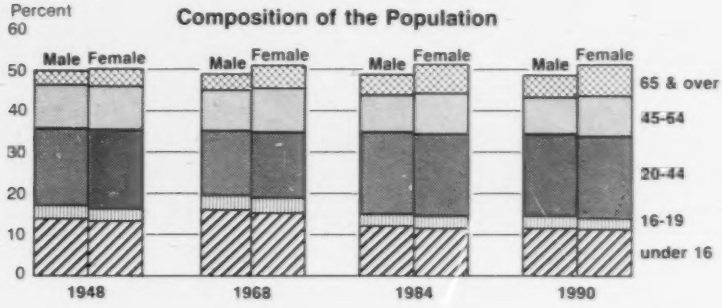


There are some very large "ifs" attending the projection of a satisfactory economic growth trend from 1984 to 1990. First, at the global level, it has to be assumed that there will be no major wars or other political or financial upheavals. There are also major assumptions about U.S. economic policy. The first is that monetary policy will keep the inflation rate subdued and reasonably steady, and not undo the progress against inflation achieved at such great cost during the 1980-1982 recessions. The second assumption is that political steps will be taken at least by 1986 to make a really significant reduction in what is now a large, permanent federal government deficit that draws a large share of national savings away from deployment in private capital investment. If a satisfactory economic growth trend to be attained in 1984-1990, it will be in the context not of a radical shift in the economy's structure but of a modest tilt toward higher rates of saving and investment, coupled with a growth rate of labor productivity that is far from spectacular but distinctly better than the recent record.

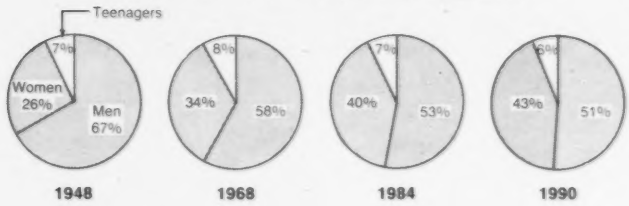
Broadly speaking, what is projected is a less volatile economy. This is a projection of attainable trends and not an attempt to forecast the short-term ups and downs of the business cycle. However, cycles will almost certainly continue to occur.

Labor productivity, or output per hour, depends to a large degree on the amount of capital available to the workforce and how effective the capital is. Thus, labor productivity is really a summary measure of how well both of the major inputs to the production process—capital and labor—are performing. Productivity is the principal determinant of the living standard. When output per worker rises briskly, so does output per capita, unless people opt to cut back their participation

in the labor force and take more leisure instead. When output per worker is stagnant, so is output per capita, unless people boost their participation in the labor force. The projected 1.8 percent annual productivity growth trend in 1984-1990, coupled with the projected growth of the labor force and drop in average hours per worker, add up to trend growth of 3.3 percent per year for real GNP and 2.3 percent for per capita real GNP. Achievement of a 1.8 percent productivity growth trend would represent a return to the 1968-1973 trend, but still be well below the 2.6 percent trend of 1948-1968. The 1.8 percent trend projection rests on the assumption that the past decade's experience—a mere 0.9 percent growth trend from 1973 to 1984—was an aberration and not a harbinger of the future. Two factors that had important adverse effects on productivity in the past decade, but that will not be repeated in the years 1984-1990, are the enormous and disruptive rise in energy prices and a flood of inexperienced workers into the



Composition of the Population



Composition of the Civilian Labor Force

labor force. The simple absence of these factors will go a good way toward assuring the step-up to the projected 1.8 percent productivity growth trend.

Because of the importance of the productivity trend, it is the variable that is changed in order to generate the two alternative projections presented here. The core projection represents what is attainable in 1984-1990, given constructive economic policy and reasonable luck. One alternative follows the pessimists and assumes that the past decade *was* a harbinger of the future, and that productivity will trend up only 1.1 percent per year in 1984-1990. This results in per capita real GNP growth of only 1.8 percent per year. The slow growth invites high inflation, as society uses inflation to paper over some of the stresses created in an environment in which the total income "pie" is growing but little. The other alternative puts productivity growth up to 2.5 percent—nearly back to the 1948-1968 trend. People are assumed to take some of the improvement in the form of less work rather than more national output; even so, real GNP per capita rises 3.0 per

Average Percent Change Per Year, Between Business Cycle Peak Years

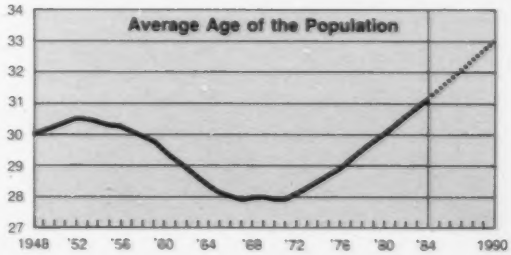
	48-55	55-68	68-73	73-79	79-84	84-90
Population:						
Adult	1.2	1.2	1.8	2.0	1.7	1.2
Age 16-19	-0.3	3.9	2.8	0.8	-2.8	-1.5
Under 16	3.6	1.5	-0.7	-1.4	-0.1	0.7
Civilian Labor Force:						
Men	0.5	0.7	1.7	1.8	1.4	1.0
Women	2.8	2.6	3.4	4.2	3.0	2.6
Age 16-19	-1.2	3.8	5.2	2.1	-3.6	-0.3

cent per year. Inflation is lower than in the core projection, as fast economic growth reduces the pressures of competing claims on the total income "pie."

The nation's population is both the basic support of the production process and the principal beneficiary of that process. The population growth rate will slow down further in 1984-1990, to below 1 percent per year. In the two decades after World War II, it was 1.6 percent per year. There is currently a baby boomlet, as the women of the post-World War II baby boom have children, but the fertility rate (that is, births per woman) remains low.

The population is aging. In 1982, the median age reached 30.6 years and finally passed the record set shortly after World War II. The median age had been 28 in the years from 1965 through 1972. In 1990, it will be 33 and there will be a dearth of teenagers.

The percentage of the working-age population (defined by the Bureau of Labor Statistics as persons 16 and over) who are actually in the labor force will continue to rise, but less rapidly than in the 1970's. This figure, the "labor force participation rate," went from 60.8 percent in 1973 to 63.7 percent in 1979; from an estimated 64.5 percent in 1984, it is projected to rise to 66.9 percent in 1990. The deceleration in the advance occurs because the women's participation rate is beginning to approach some sort of natural limit.



Average Age of the Population

The short supply of teenagers will tend to elevate their participation rate, however.

The labor force will grow at 1.6 percent per year from 1984 to 1990, equal to the rate in the past five years and far below the 2.7 percent rate of 1968-1979. The economy will thus have to absorb far fewer new workers than was the case in the 1970's. The growth rate of employment (1.9 percent per year) will exceed that of the labor force (1.6 percent) and the unemployment rate is projected to be down to 6 percent in 1990.

The table shows how rising employment, a further decline in average hours per worker (shorter workweeks, more part-timers), and rising productivity add up to produce real economic growth of 3.3 percent per year to 1990. In the 1970's, the rapid rise in the labor force boosted the number of people at work much faster than the population. It was only this increase in the ratio of workers to total population that allowed us to improve our living standard in those years, since hours per worker were falling and output per hour (productivity) was rising only slowly. In the years to 1990, the ratio of workers to population will rise further, and hours will continue to fall, but productivity growth will be better than in the 1970's and will contribute significantly to the advance of the national living standard.

The higher-productivity-growth alternative assumes that the favorable productivity trend will result in a somewhat slower rise in the labor force than in the core projection. That is, people will take some of the benefit of better productivity growth in the form of more leisure per capita rather than more output per capita. The lower-

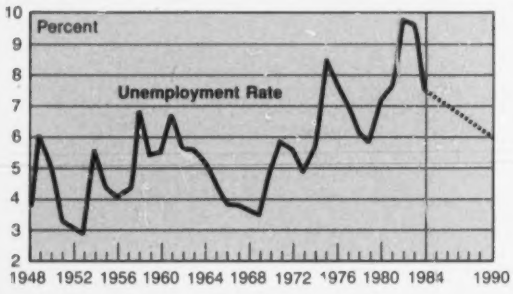
The Sources of Economic Growth

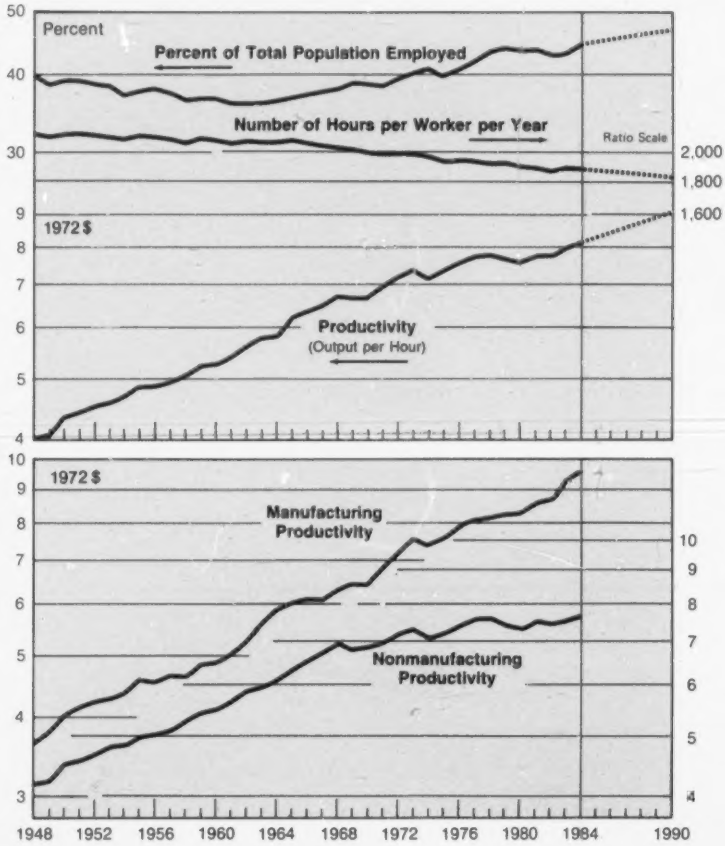
	Employment (thousands) x	Annual Hours Per Worker x	Output Per Hour (1972 $) x	Adjustment =	Output (Billion 1972 $) ÷	Population (thousands) =	Output Per Capita (1972 $)
	(1)*	(2)	(3)*	(4)*	(5)	(6)	(7)
1948	58,358	2,139	4.00	.98	489.8	147,167	3,328
1968	75,913	2,031	6.68	1.03	1,058.1	200,664	5,273
1978	98,825	1,916	7.63	1.02	1,479.4	224,999	6,575
1984	105,084	1,874	8.13	1.02	1,627.4	236,316	6,887
1990:							
Central	117,422	1,829	9.05	1.02	1,975.2	249,731	7,909
Low	118,634	1,829	8.68	1.02	1,914.7	249,731	7,667
High	117,096	1,829	9.43	1.02	2,052.5	249,731	8,219

Average Percent Change Per Year

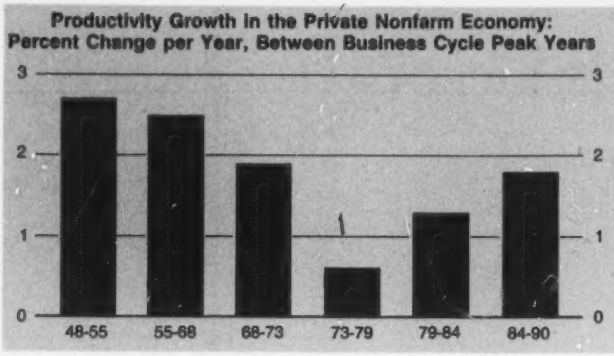
	Employment	Annual Hours Per Worker	Output Per Hour		Output	Population	Output Per Capita
1948-1955	0.9	-0.2	2.7		4.2	1.7	2.5
1955-1968	1.7	-0.3	2.5		3.8	1.5	2.3
1968-1973	2.3	-0.5	1.9		3.4	1.1	2.3
1973-1979	2.5	-0.6	0.6		2.7	1.0	1.7
1979-1984	1.2	-0.4	1.3		1.9	1.0	0.9
1984-1990:							
Central	1.9	-0.4	1.8		3.3	0.9	2.3
Low	2.0	-0.4	1.1		2.7	0.9	1.8
High	1.8	-0.4	2.5		3.9	0.9	3.0

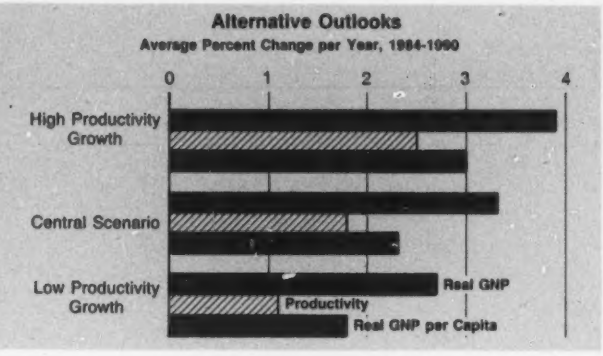
Note: *(1)Civilian total *(3)Productivity in the nonfarm business sector *(4) Adjustment is necessary to scale up from output of the nonfarm business sector to output of the entire economy





productivity-growth alternative assumes that society will protect living standards by putting more people to work. Under this alternative, labor-force participation rises faster than in the core projection, the unemployment rate falls further (to 5.5 percent in 1990), and the number of employed workers per capita in 1990 is higher. These developments echo the way in which society

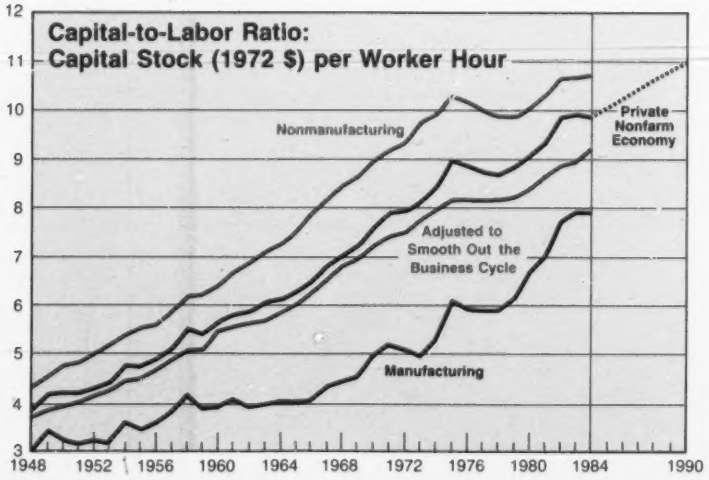


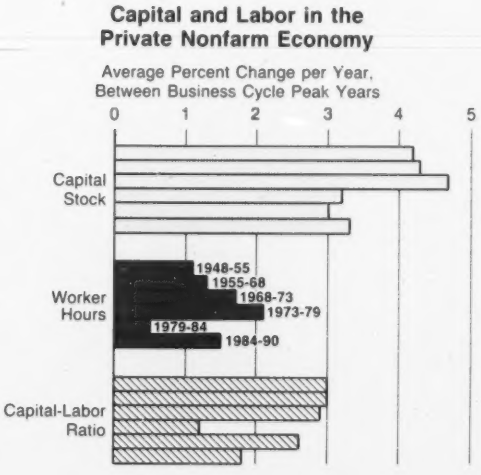


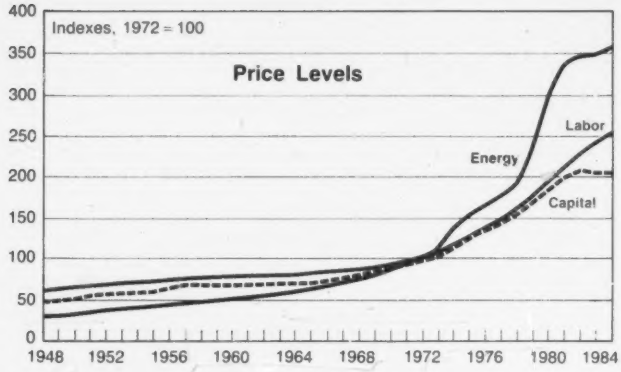
protected living standards in the face of slow productivity growth in the 1970's.

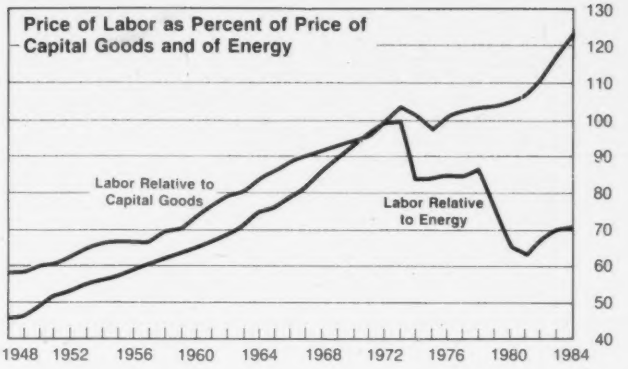
The 1.8 percent annual productivity trend assumed in the core projection—1.8 percent per year—is not high by historical standards. The poor productivity performance of recent years makes it advisable to be conservative in projecting the future, but the productivity outlook is not as gloomy as popular belief holds. While better than the recent record, the core projection is well below the trend in 1948-1968. In the 1970's, productivity growth was hindered by the surge of inexperienced workers into the labor force and the steep rise in energy prices (making labor a *relatively* less expensive input than it had been). The absence of these forces in the 1980's should be enough to improve the productivity trend to at least the vicinity of 1½ percent per year. The trend can be raised further if the economy tilts further toward investment in fixed capital and in research and development.

The high productivity assumption—an annual uptrend of 2.5 percent—is approximately the average of the performance in all postwar years that were not significantly affected by peaks or troughs of the business cycle. To attain such a trend is not out of the question. the low productivity alternative makes the 1984-1990 trend equal to the actual average trend of 1968-1979. This is a very conservative, indeed gloomy, assumption. In the core projection, the 1984-1990 productivity trend is about equal to the estimated average performance in the early 1980's, excluding the depressing effects of the economic slumps in those years.



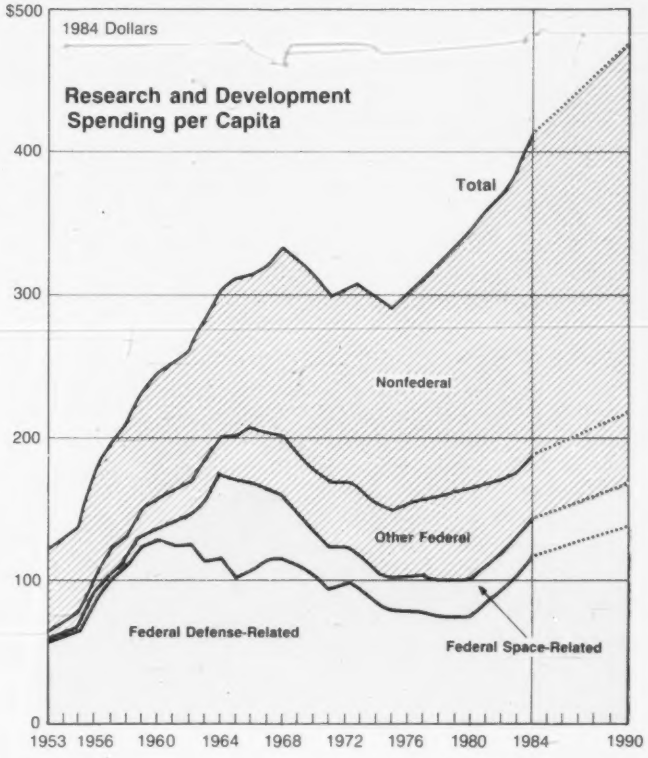




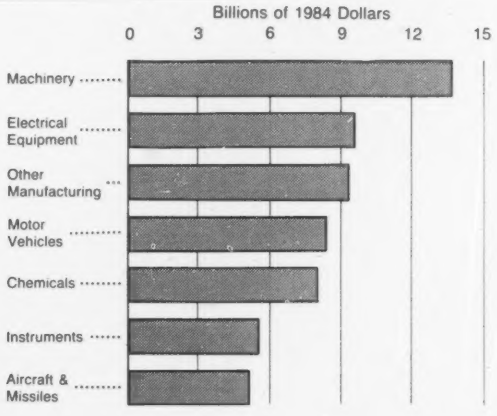


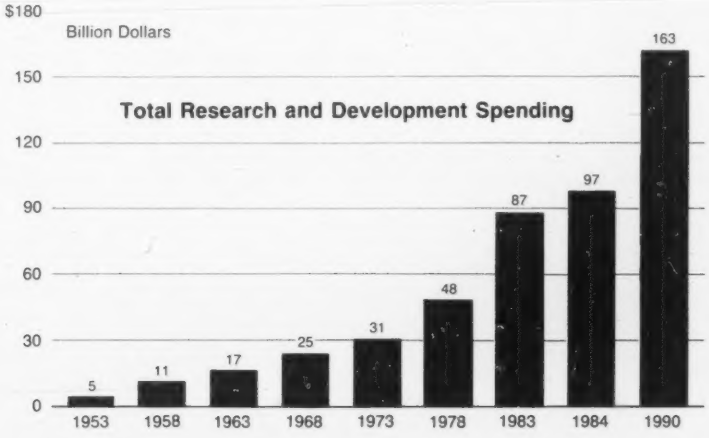
Research and development (R & D) is a general term covering "ivory tower" investigation to dream up new ideas, the search for practical applications of new ideas, and the development of processes to implement the practical applications. Business spends a great deal of money on R & D in order to find more efficient methods of production, better product design, and entirely new products. The need for more intense efforts in R & D has never been greater than now, as U.S. producers find intense competition in both price and quality of product everywhere they do business. The need for new products is as pressing in the "high-tech" industries as it is in so-called "low-tech" areas such as food-processing or textiles.

While R & D has always been an important element in economic development, there have been periodic bursts of effort. In the late 1950's and early 1960's, federal funding of defense-related and space-related R & D intensified, and the economy ultimately benefited from many commercial applications of this work. In the late 1960's and early 1970's, defense- and space-related R & D diminished, but commercial R & D efforts began to take up the slack. Most of the rise in total



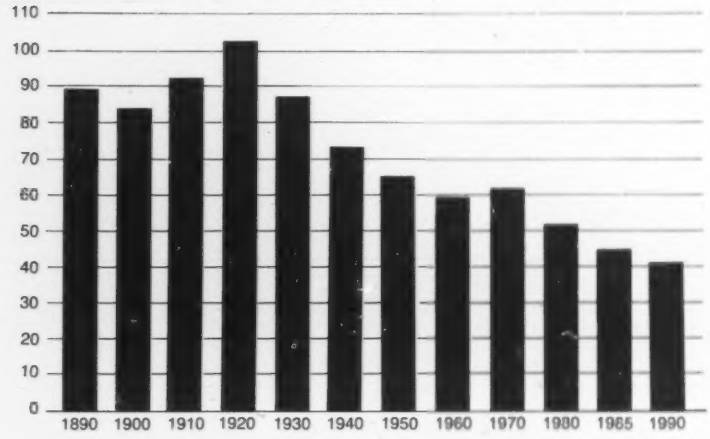
Company-Financed Research & Development Spending in Major Industries in 1990



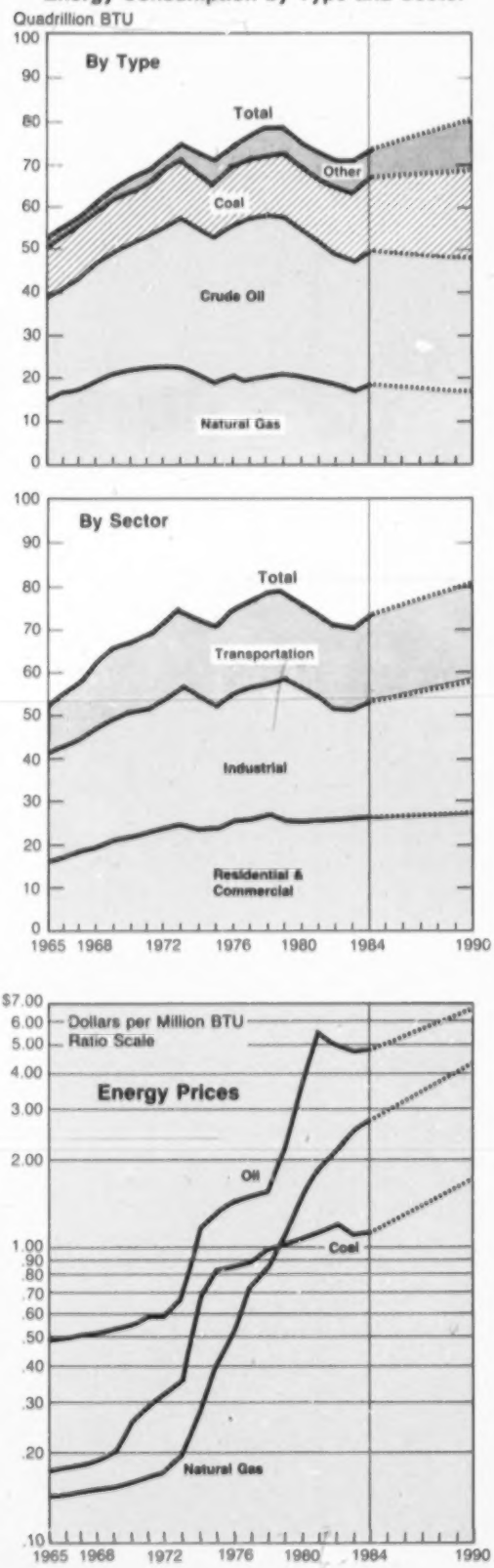


Energy Consumption Relative to Economic Activity

Thousand BTU's per Dollar of Real GNP



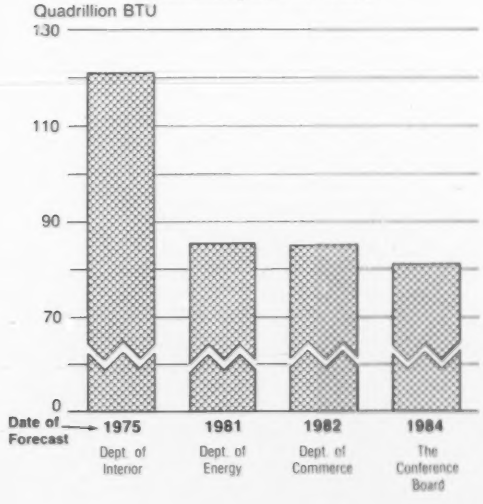
Energy Consumption by Type and Sector



R & D spending in the last ten years was funded by industry. Federally funded, defense-related R & D is now increasing once again, but company funded R & D may actually be accelerating and that trend is likely to continue through the decade.

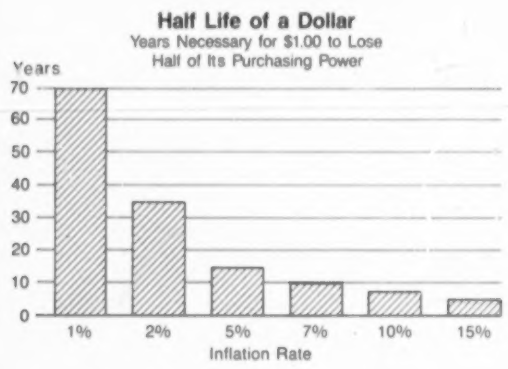
There has been a long-term decline in the energy intensity of the U.S. economy, measured as the amount of energy needed to produce each dollar of real GNP. In the 1970's, however, it became increasingly difficult to produce more output from a unit of energy. Accelerating inflation and high interest rates raised the cost of acquiring new industrial equipment, leading to a gradual aging of the capital stock and a decline in its efficiency. In fact, some analysts were suggesting that a limit had been reached in reducing the economy's energy intensity. Only a decade ago, energy use was generally considered to be quite inelastic to price (that is, only a very large change in price would result in even a modest change in use). But it is now clear that

The Changing Outlook for U.S. Energy Consumption in 1990



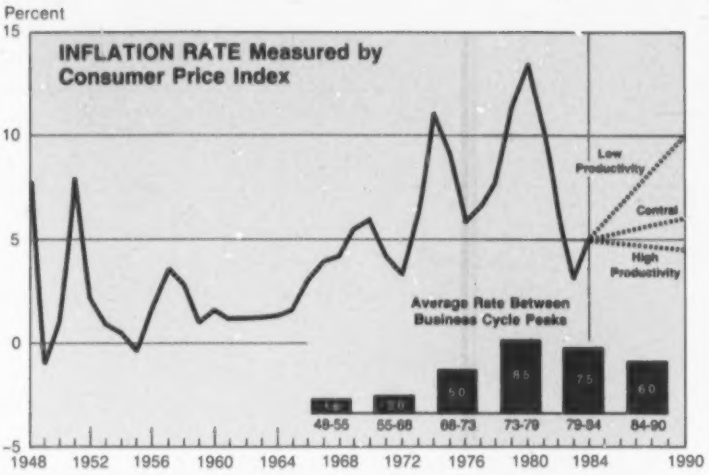
energy is, in fact, a price-elastic commodity. In all sectors of the economy, all forms of energy have come to be used more efficiently, and energy intensity is again declining. Energy use for heating and air conditioning has dropped because of better insulation. Industry has found ways to decrease the amount of energy needed to run existing equipment, and has channeled new investment into more energy-efficient equipment.

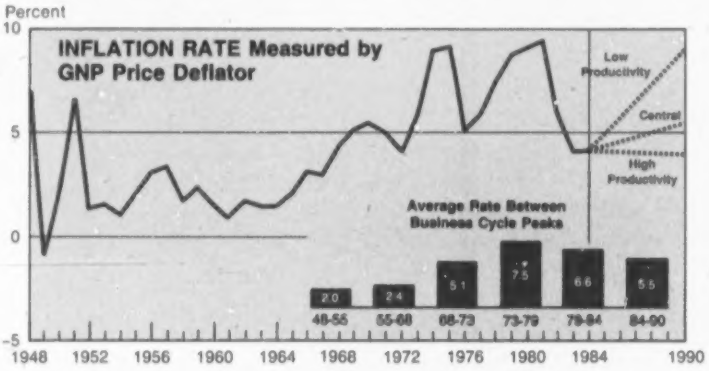
The price of energy is likely to rise only moderately faster than the general price index for the rest of this decade, even though the price of natural gas is to be decontrolled. The price of a standard unit of energy (one million BTU's) in 1984 was about $4.77 when the energy came from crude oil, $2.69 from natural gas, and $1.20 from coal. If the general inflation trend can be held to 5.5 percent per year between now and 1990, and the amount of energy needed to produce one dollar of real GNP declines around 2 percent per year,

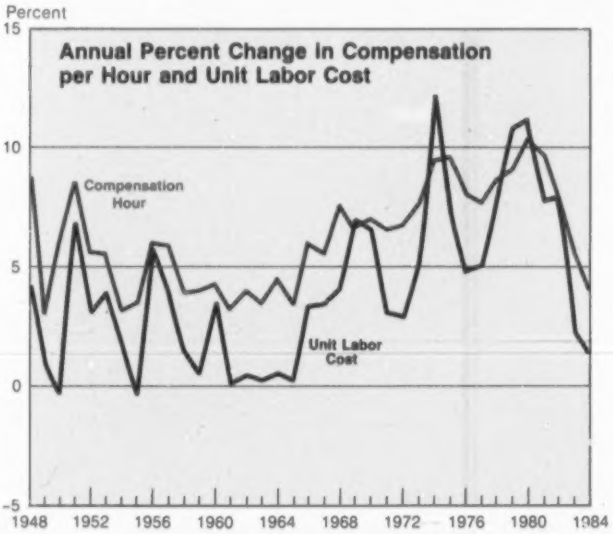


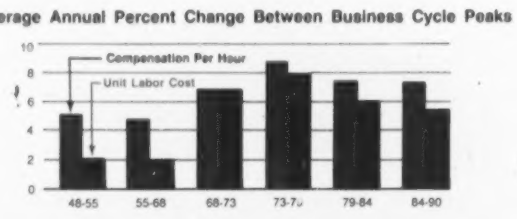
the price of one million BTU's in 1990 might be a little less than $7 from crude oil, a little more than $4 from natural gas, and still less than $2 from coal.

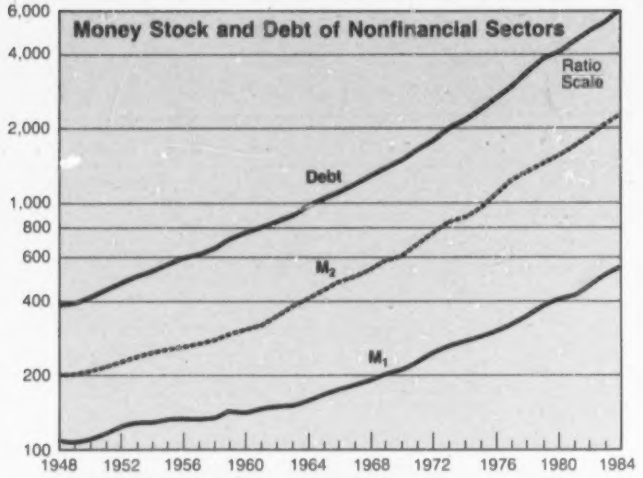
Consumption in the residential and commercial sector will probably not rise very much in the second half of this decade. If real GNP expands by about 3.3 percent annually through 1990, then energy use in the transportation and industrial sectors is likely to rise by just under 2 percent annually. Natural gas and crude oil consumption should decline from 1984 to 1990, while coal consumption, especially in industrial applications and electricity generation, should rise sharply. Energy from other sources—mainly solar, geothermal, hydro and nuclear—will rise very sharply from a small base. Solar energy will probably account for the bulk of that rise, while nuclear energy may not rise at all.

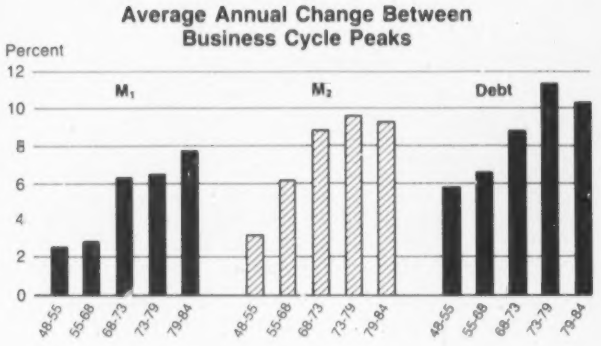


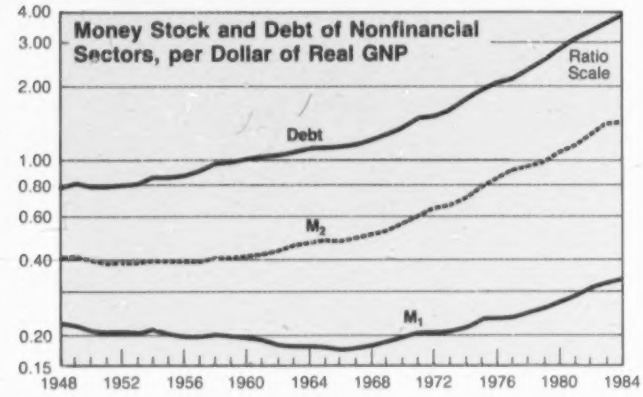


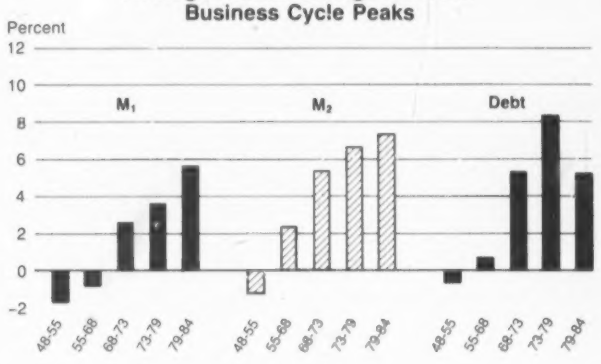








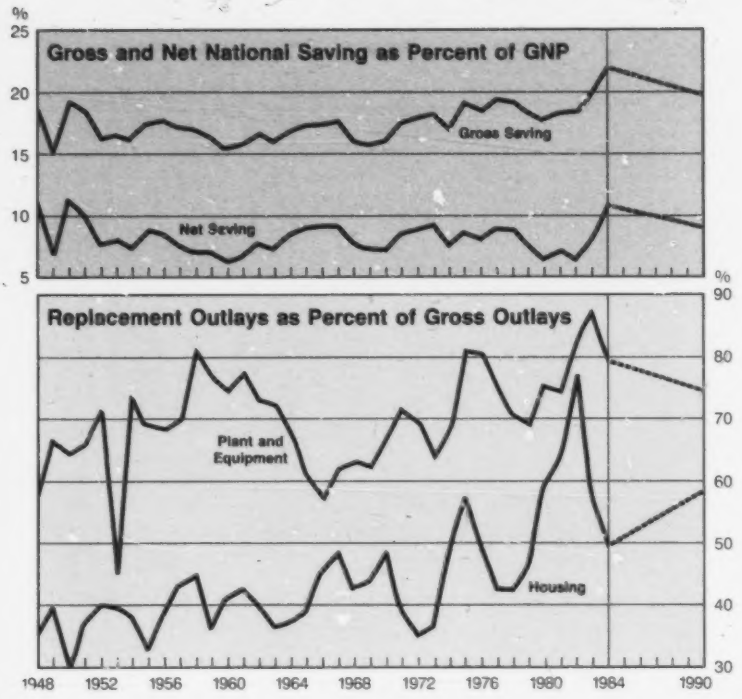


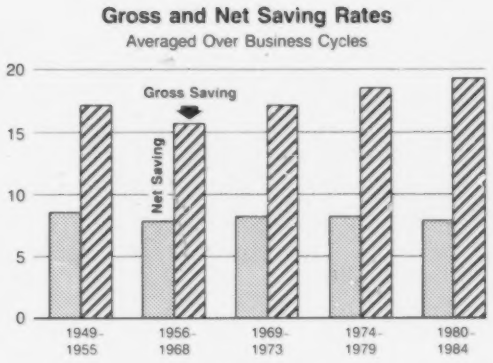


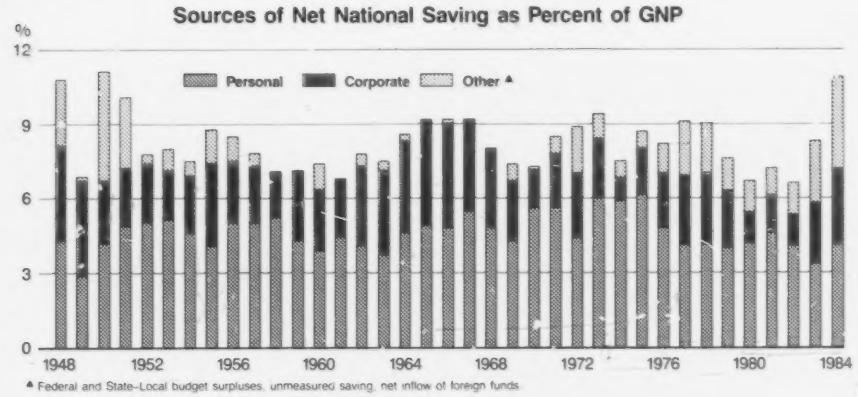
The economy's stop-go path in the 1970's was the result of an off-on policy response to inflation. The policies failed to achieve real gains, and inflation steadily worsened. The long slump of the early 1980's was to a major degree the result of a grimly determined effort to wring inflation out of the system by starving the inflation, that is, by refusing to supply the volume of money necessary to support a swiftly rising price level.

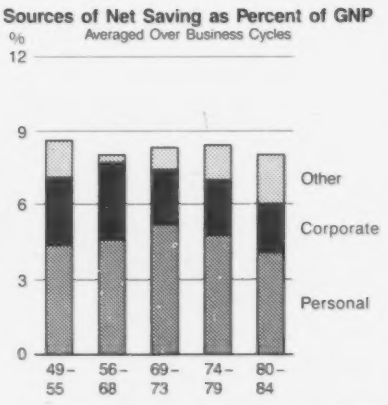
Inflation is a monetary phenomenon. Discussions of inflation often focus attention on the rate of increase in worker compensation and on the rise in employment costs relative to the rise in output. However, if the financial wherewithal to support a rapidly rising wage bill is not present, labor costs cannot rise at an inflationary pace. Fast-rising labor costs are thus as much a result of inflation as a cause; they are a signal of excessive monetary expansion. The question is why the money stock has so frequently grown at rates outpacing real economic growth, thereby generating inflation. There is no simple answer. However, for much of the post-World War II era, political and popular opinion saw inflation as a phenomenon associated only with a fully employed economy. At less than full employment, it seemed appropriate to resolve policy doubts on the side of ensuring full financial support for any expansionary thrust in the system. Almost every error was on the side of more, not less, monetary growth, especially in view of another widely held belief to the effect that a plentiful flow of money would hold down interest rates. The cumulative effect over the years was to stoke the system with inflationary amounts of spending capability.

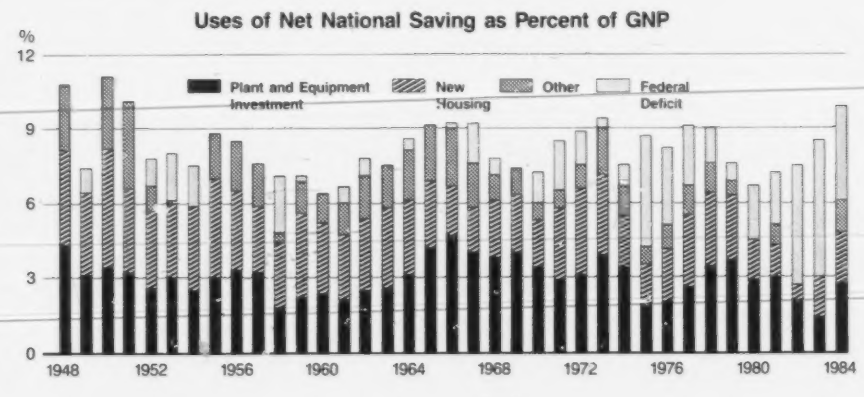
Those days may be over. There is now a better public understanding of the monetary underpinnings of inflation and the inflationary underpinnings of high interest rates. Memories of the severe social pain of inflation, and of inflation-stopping economic slumps, should help society to retain its hard-won understanding. The core projection to 1990 assumes that we will heed the lessons learned so painfully in the 1970's and early 1980's. The inflation trend is put at 5.5 percent per year, which is not low by historical standards but far better than the sorry showing of the recent past. The high-productivity alternative projects a 4.0 percent price trend; the low-productivity alternative projects a 9.0 percent trend, associated with futile attempts to relieve the frustrations of slow growth by boosting money incomes.

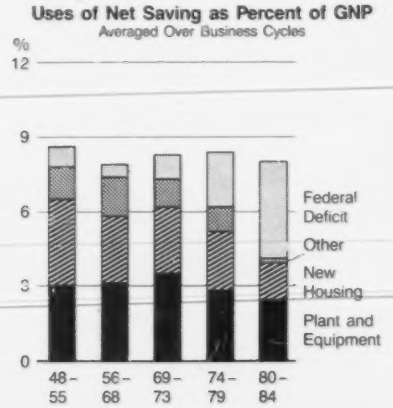

%
25
20
15
10
5
Gross and Net National Saving as Percent of GNP
Gross Saving
Net Saving
Replacement Outlays as Percent of Gross Outlays
Plant and Equipment
Housing
%
90
80
70
60
50
40
30
1948
1952
1956
1960
1964
1968
1972
1976
1980
1984
1990

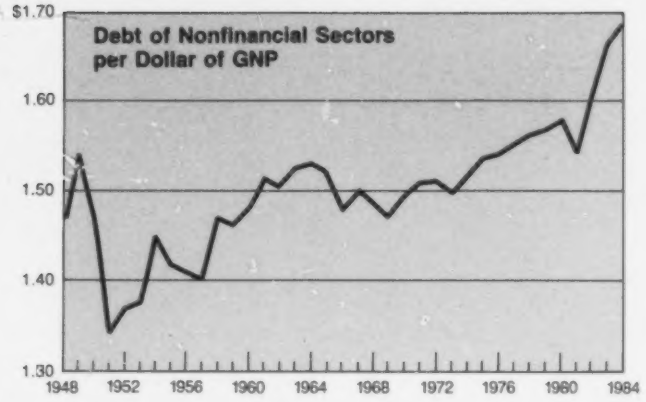

Gross and Net Saving Rates
Averaged Over Business Cycles
20
15
10
5
0
Gross Saving
Net Saving
1949-1955
1956-1968
1969-1973
1974-1979
1980-1984

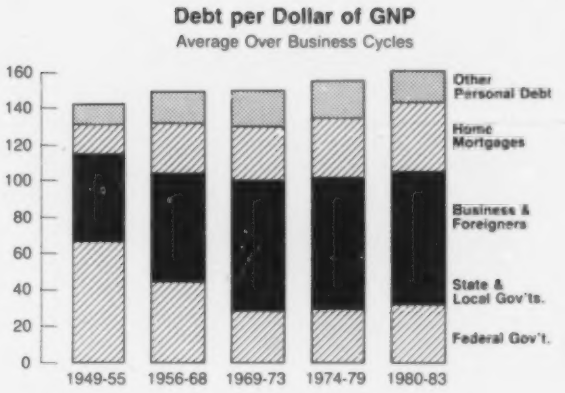

Sources of Net National Saving as Percent of GNP
%
12
9
6
3
0
Personal
Corporate
Other ▲
1948
1952
1956
1960
1964
1968
1972
1976
1980
1984
▲ Federal and State-Local budget surpluses, unmeasured saving, net inflow of foreign funds


Sources of Net Saving as Percent of GNP
Averaged Over Business Cycles
%
12
9
6
3
0
Other
Corporate
Personal
49-55
56-68
69-73
74-79
80-84


Uses of Net National Saving as Percent of GNP
%
12
9
6
3
0
Plant and Equipment Investment
New Housing
Other
Federal Deficit
1948
1952
1956
1960
1964
1968
1972
1976
1980
1984

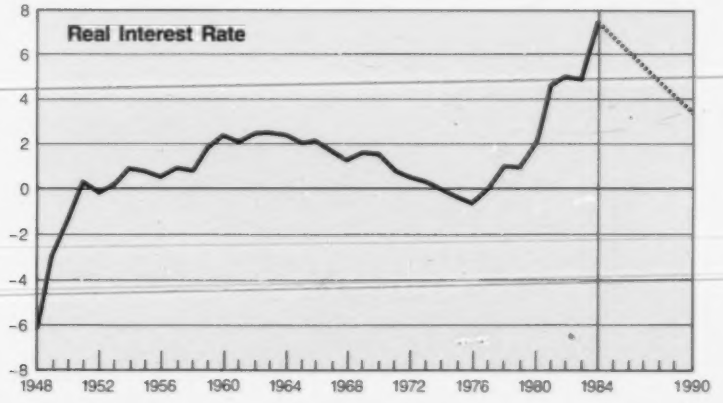

Uses of Net Saving as Percent of GNP
Averaged Over Business Cycles
%
12
9
6
3
0
Federal Deficit
Other
New Housing
Plant and Equipment
48-55
56-68
69-73
74-79
80-84



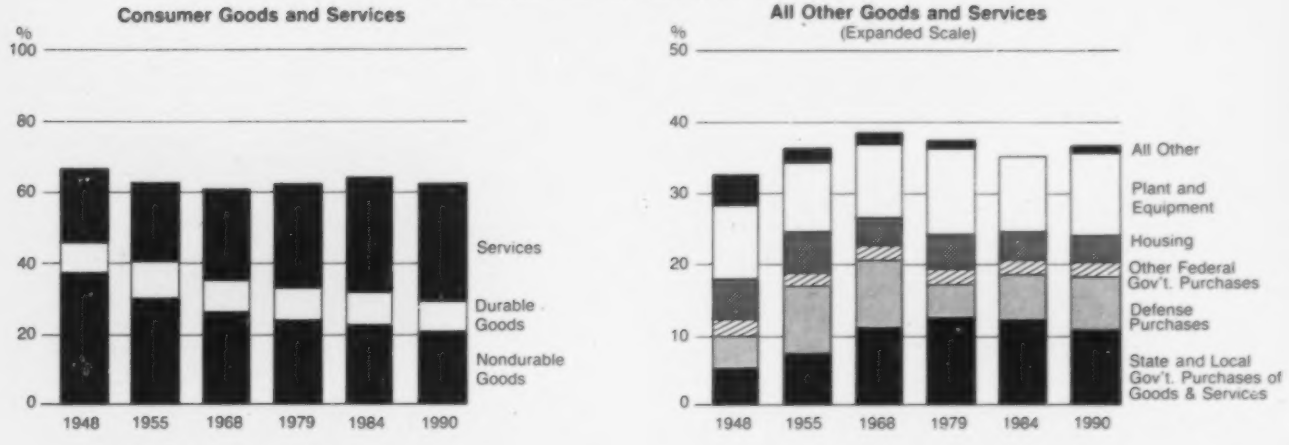


The notion of "crowding out" is often spoken of in terms of competition among borrowers in the financial markets. However, those markets simply reflect the true struggle, which is for control over real resources. The United States is a low-saving country. As a society, we choose to use up right away—for current consumption and government purchases—a high percentage of the economy's total output; the remainder, our national saving, constitutes the resource pool available for additions to the nation's capital stock. For the past decade, we have saved about 18 percent of GNP, but almost two-thirds of that saving was needed for the new structures and equipment that simply replaced fixed capital that was ending its useful life. After allowing for those replacement needs, net national saving has averaged only about 7½ to 8 percent of GNP during the past four decades. It is this modest percentage that represents the resources available for net additions to the nation's stock of productive capital, and the competition for this resource pool is where the real crowding out can occur. This is why the federal budget deficit matters: It has been preempting an increasing share of the nation's net saving, and thus crowding out other claimants to the pool of saved resources. This crowding out entails diversion of saved resources away from capital formation, and thereby reduces the nation's ability to grow. Current prospects are that the federal deficit will not drop below 4 percent of GNP in the next several years, meaning that it will continue to absorb at least half of the available national saving pool. Policy actions to change those prospects are vital to the nation's future economic growth.

Saving by individuals and by corporations (retained earnings) makes up the bulk of net national saving. The other principal sources feeding the pool of investible resources are state and local government budget surpluses and net inflows of foreign capital. The international capital flow used to be a net outflow, as Americans were net lenders to the rest of the world and built up their investment claims on foreigners. Lately, however, the direction has reversed and the inflow of foreign capital has risen sharply, augmenting the domestic saving pool. A common theory of the causal chain starts with the stresses in U.S. financial markets, centering on the federal deficits that push up real interest rates here; the high rates stimulate foreigners' desire to hold investments here; this drives up the dollar's exchange rate as foreigners seek to acquire dollars; and the result is that our balance of international transactions in goods and services deteriorates as exports slump and imports soar. The U.S. deficit on goods and services transactions is the mirror image of the increased inflow of foreign capital. So, while that inflow has eased some of the pressure of competition for the pool of investible resources in the United States, it has done so at the expense of U.S. exporting and import-competing industries. Those industries are victims of crowding out.

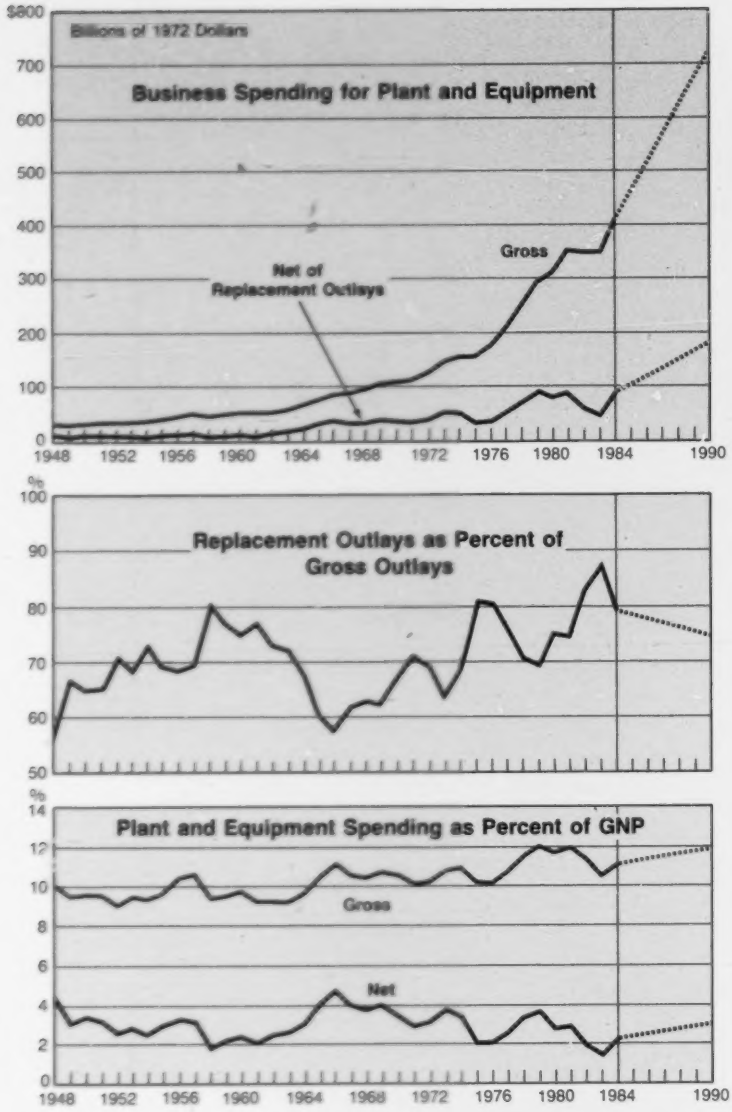


Percent Composition of the GNP

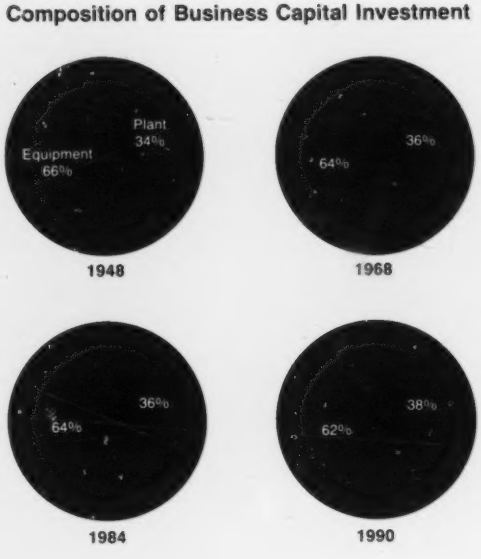


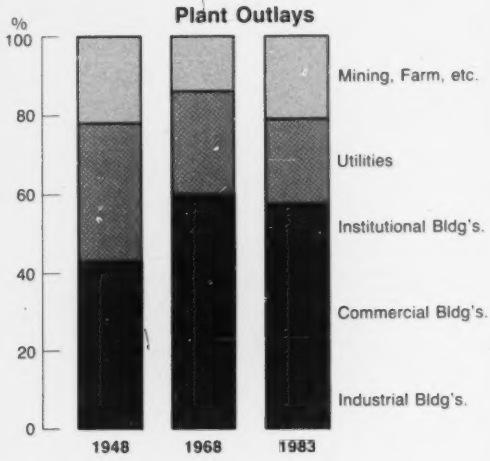
The relatively favorable outlook to 1990 presented here entails simply some tilt in trends. The shape and direction of national economic activity do not make large shifts in short time periods. The personal saving rate is projected at 6.8 percent of disposable income in 1990, which is back up to a level in line with the past. The share of personal consumption in GNP will consequently drop a bit, but at 63 percent it will be a mere 4.3 points below the figure as long ago as 1948. A modest rise is projected in the share of business capital investment, both gross and net of outlays for replacements. The gross and net residential investment shares of GNP fall slightly. The defense spending share will be higher, reflecting continued brisk growth at least through 1986, followed by slow growth, or at least stability, to 1990. The state-local government share of GNP, consisting largely of the services produced by government workers, will shrink. A deficit in U.S. international trade will persist.

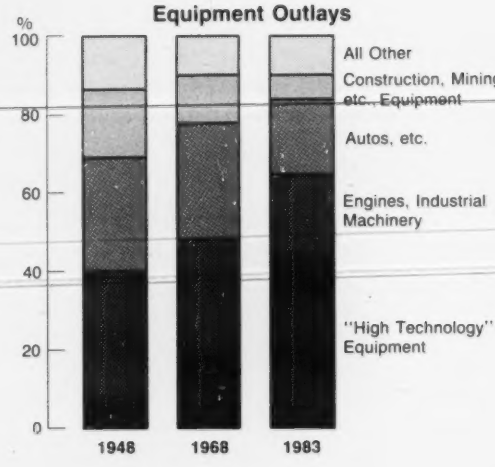
Investment and Federal Spending as Percent of GNP

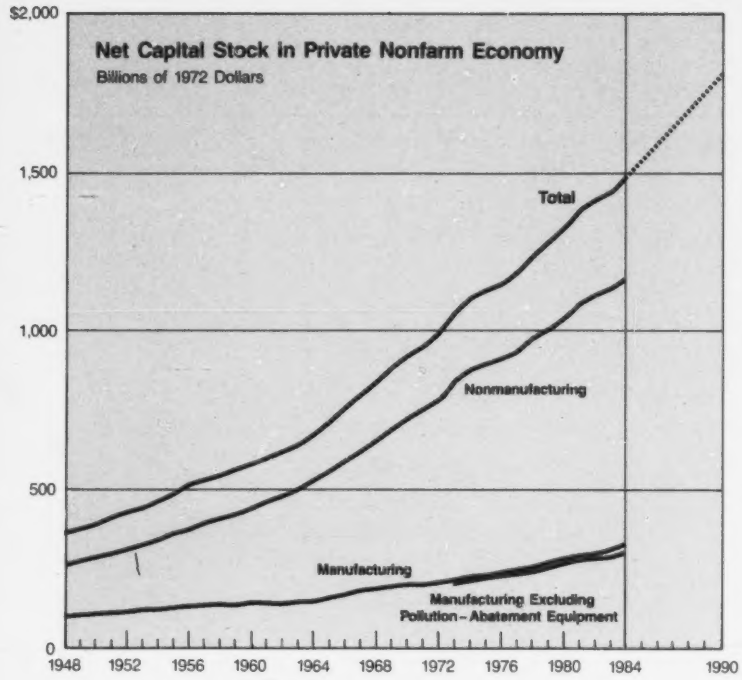

Billions of 1972 Dollars
Business Spending for Plant and Equipment
Gross
Net of Replacement Outlays
Replacement Outlays as Percent of Gross Outlays
Plant and Equipment Spending as Percent of GNP
Gross
Net

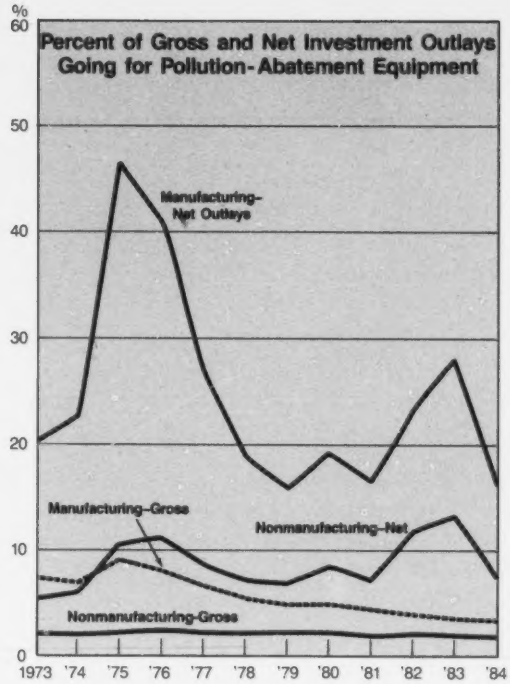
The share of gross business capital investment in GNP will reach 11.8 percent in 1990, from about 11.2 percent in 1984. The gross figures include outlays to replace assets ending their useful lives. Net investment in business capital, that is, the net addition to the capital stock, is only about 2.3 percent of GNP in 1984. It is projected at 3.0 percent in 1990, which is in line with the long-term average. The growth rate of the net capital stock will be only fractionally higher in 1984-1990 than it has been over the past decade. In the 1970's, however, a substantial share of the net investment in many industries took the form of equipment for pollution abatement, whose purpose was to produce cleaner air and water rather than marketable output that would have counted in the GNP. The great surge of pollution-abatement spending is over, so in the years ahead a much smaller share of net investment will go for such purposes.

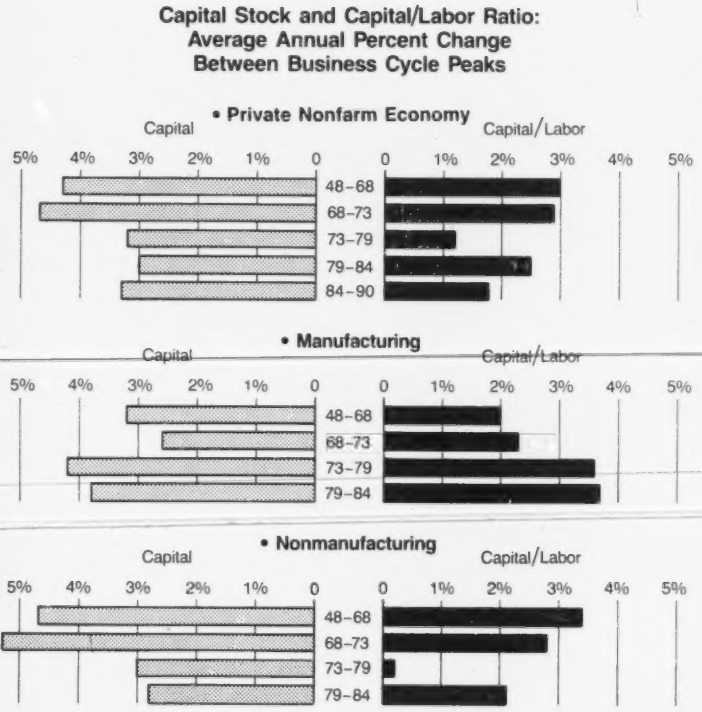


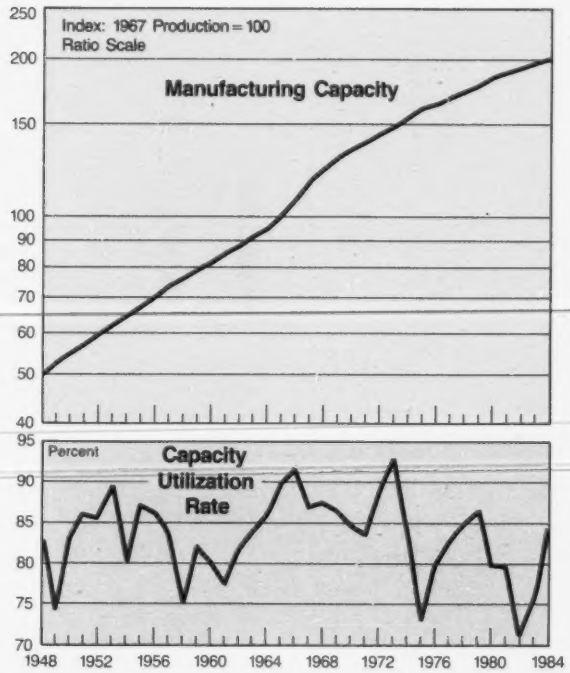





Net Capital Stock in Private Nonfarm Economy
Billions of 1972 Dollars
$2,000
1,500
1,000
500
0
Total
Nonmanufacturing
Manufacturing
Manufacturing Excluding Pollution-Abatement Equipment
1948 1952 1956 1960 1964 1968 1972 1976 1980 1984 1990

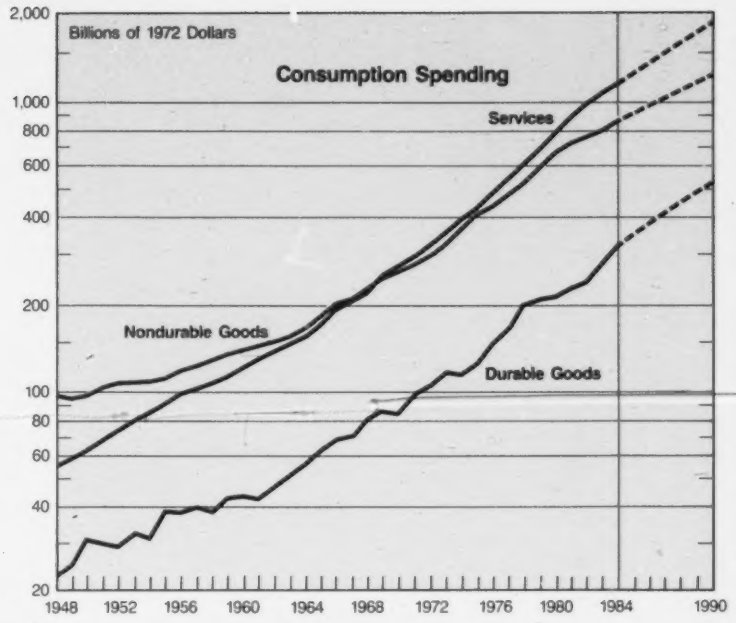

Percent of Gross and Net Investment Outlays Going for Pollution-Abatement Equipment
%
60
50
40
30
20
10
0
Manufacturing-Net Outlays
Manufacturing-Gross
Nonmanufacturing-Net
Nonmanufacturing-Gross
1973 '74 '75 '76 '77 '78 '79 '80 '81 '82 '83 '84

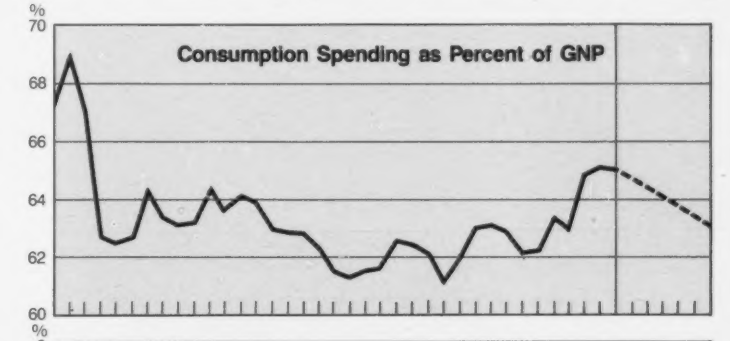

Capital Stock and Capital/Labor Ratio: Average Annual Percent Change Between Business Cycle Peaks
• Private Nonfarm Economy
Capital
Capital/Labor
5% 4% 3% 2% 1% 0 0 1% 2% 3% 4% 5%
48-68
68-73
73-79
79-84
84-90
• Manufacturing
Capital
Capital/Labor
5% 4% 3% 2% 1% 0 0 1% 2% 3% 4% 5%
48-68
68-73
73-79
79-84
• Nonmanufacturing
Capital
Capital/Labor
5% 4% 3% 2% 1% 0 0 1% 2% 3% 4% 5%
48-68
68-73
73-79
79-84

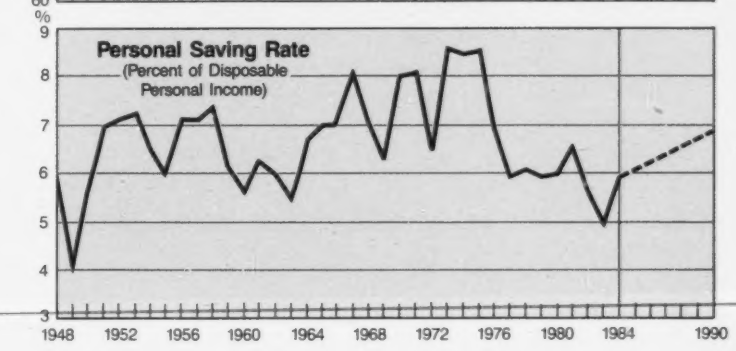

Index: 1967 Production = 100
Ratio Scale
Manufacturing Capacity
250
200
150
100
90
80
70
60
50
40
Percent
Capacity Utilization Rate
95
90
85
80
75
70
1948 1952 1956 1960 1964 1968 1972 1976 1980 1984

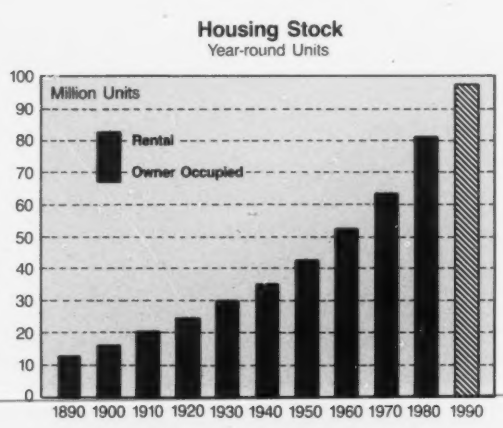
Consumer goods and services will remain by far the largest part of the nation's output. In 1990, they will total 63.0 percent of GNP. The mix will continue to shift away from food and clothing, and toward services. In the less volatile and less inflationary economic environment projected for the rest of the decade, the consumer saving rate moves up to 6.8 percent of disposable income in 1990, from 4.9 percent in 1983 and about 5.4 percent in 1984. This rise is an element in the economy's modest tilt toward greater saving and investment.

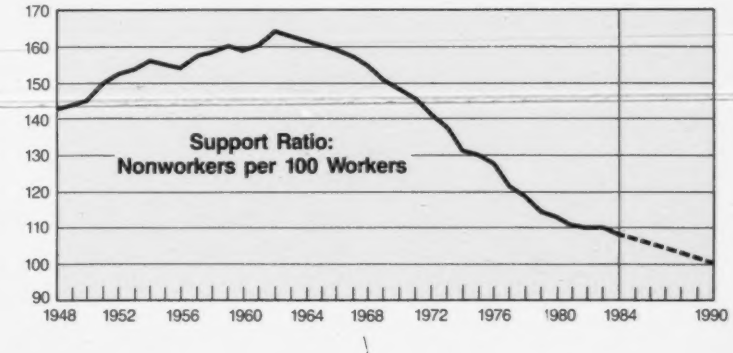
Consumer markets will continue to be affected by the further substantial drop that is occurring in the ratio of husband-wife families to the total number of U.S. households. (A household can comprise one person, unrelated persons, or a family.) Husband-wife families are projected to be only 54.8 percent of households in 1990, compared with 60.9 percent in 1980 and 74.3 percent in 1960. All of the growth in the total number of households in the 1980's will be accounted for by the group with household income over $25,000 (in 1980 dollars). As a result, 42.4 percent of American households will be in that group in 1990, compared with 34.1 percent in 1980.





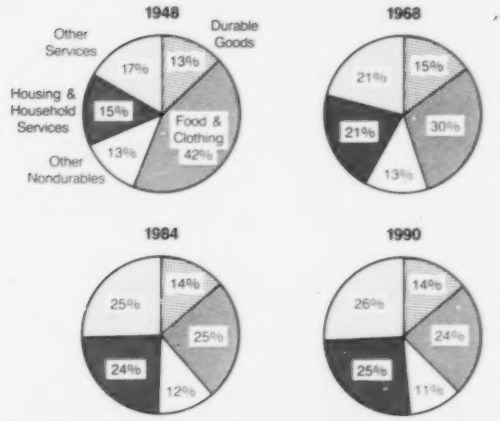




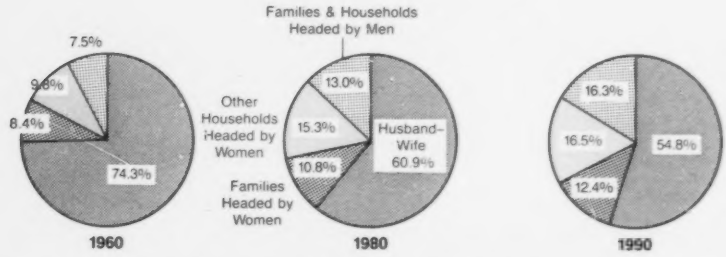


Where the Consumer Dollar Goes	1979	1984	1990
Housing and Household Services	$0.22	$0.24	$0.25
Other Services	0.24	0.26	0.26
Food	0.21	0.19	0.18
Clothing	0.07	0.06	0.05
Gasoline, Oil, Fuel, Other Nondurables	0.12	0.12	0.11
Motor Vehicles and Parts	0.06	0.06	0.07
Other Durables	0.08	0.07	0.08

Percent Composition of Consumption



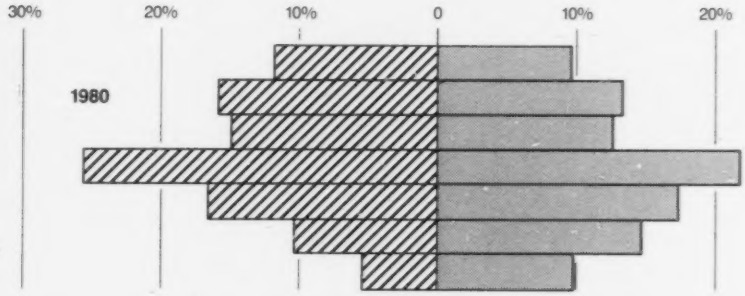
American Households



Percent Change, 1980–1990	
All Households	22.4
Husband-Wife	10.2
Families Headed by Women	41.0
Other Households Headed by Women	32.2
Families & Households Headed by Men	53.5

Distribution of American Households by Income Class

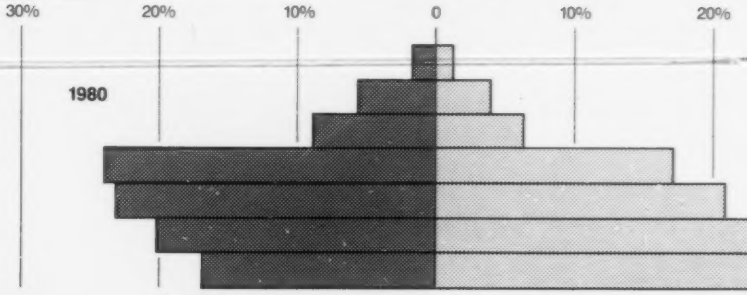
Income in 1980 Dollars



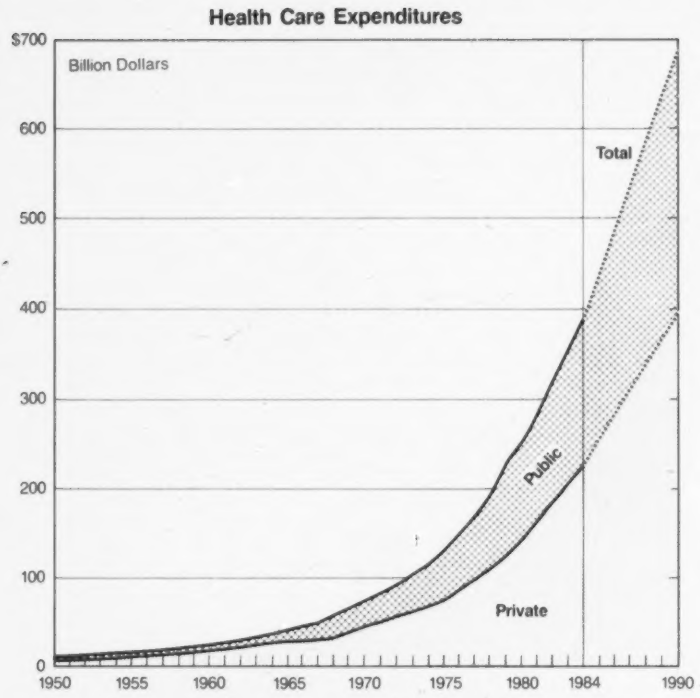
	Share of the Total Growth of Households, 1980–1990
Under $5,000	-2.1
$5,000–10,000	0.0
$10,000–15,000	0.7
$15,000–25,000	0.7
$25,000–35,000	25.0
$35,000–50,000	40.3
$50,000 & Over	35.4

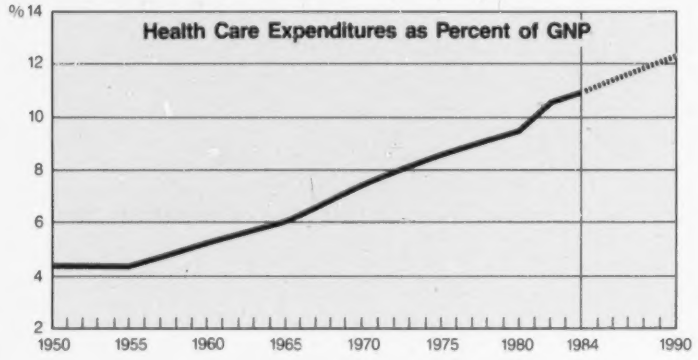
Distribution of American Household Income by Income Class

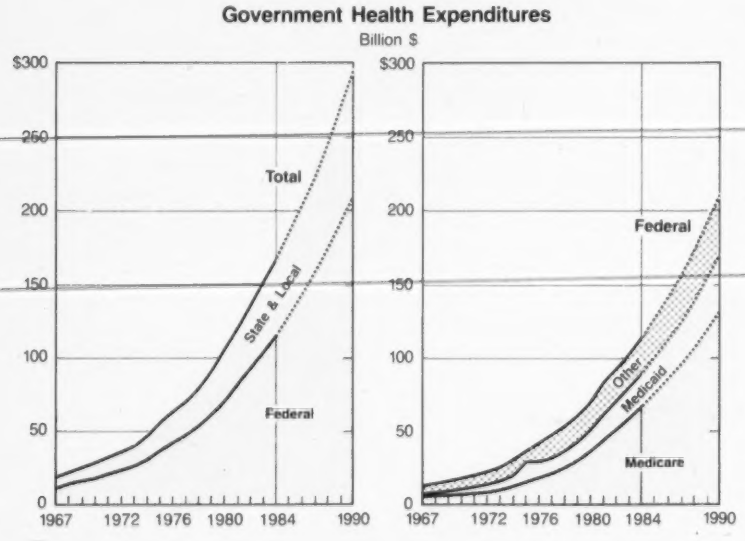
Income in 1980 Dollars

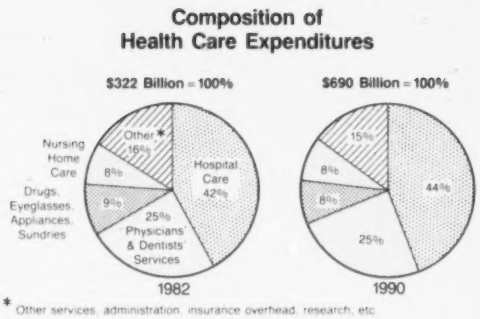


	Share of the Total Growth of Income, 1980–1990
Under $5,000	-0.1
$5,000–10,000	0.4
$10,000–15,000	0.5
$15,000–25,000	1.9
$25,000–35,000	16.1
$35,000–50,000	34.4
$50,000 & Over	46.7



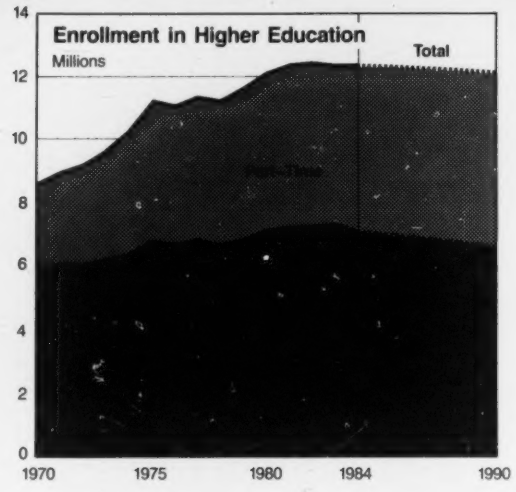


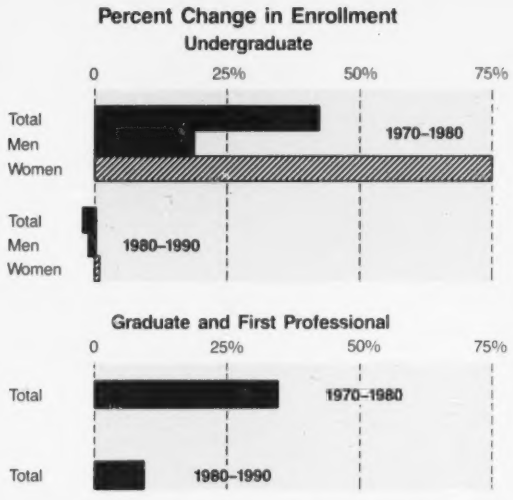


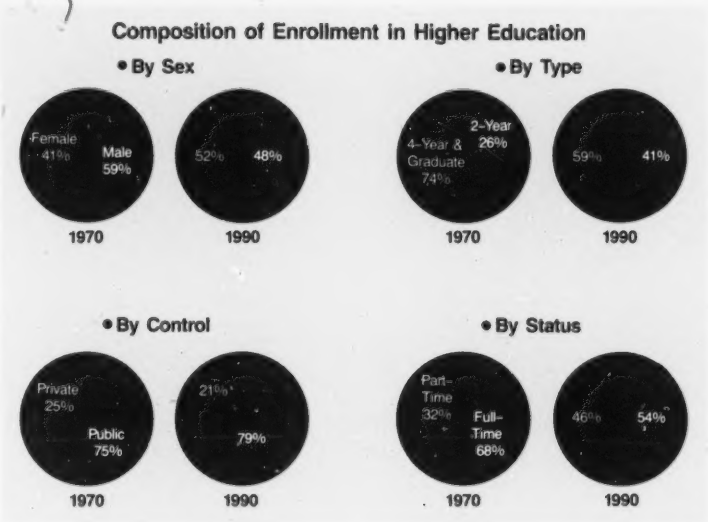


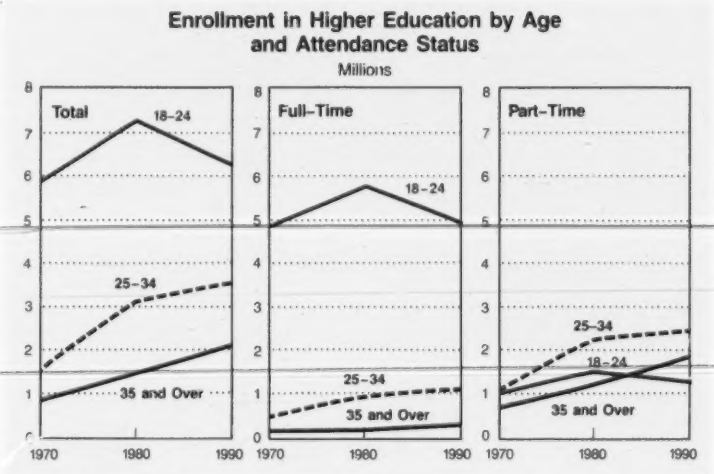
The nation's health-care bill more than quadrupled between 1970 and 1982, from $75 billion to $322 billion, and is expected to reach approximately $690 billion in 1990. As in the past, this advance will outrun that in total GNP. The Health Care Financing Administration estimates that the slower inflation rate and a slowdown in the growth of government financing of health care will exert downward pressure on health spending, while increases in real GNP, the aging of the population, and development of new technologies will exert upward pressure. The estimated net effect of these pressures will be a deceleration in the growth of health-care spending. However, the aging of the population will exert strong upward pressure on health expenditures. The number of persons over the age of 75 rose 30 percent between 1970 and 1980, and will rise by 34 percent during this decade.

Public expenditures for health care were roughly $3½ billion, or a quarter of the health-care total, in 1950, and rose to $105 billion (42 percent) by 1980. They are expected to reach $294 billion in 1990, with the ratio of public to total expenditures expected to change little. The federal share of health expenditures is currently 29 percent and is not expected to rise more than 2 percentage points by 1990. The largest share of federal expenditures is for medicare. State and local governments, which finance about 13 to 14 percent of national health expenditures, are projected to show a slight decline to about 12 percent by 1990.

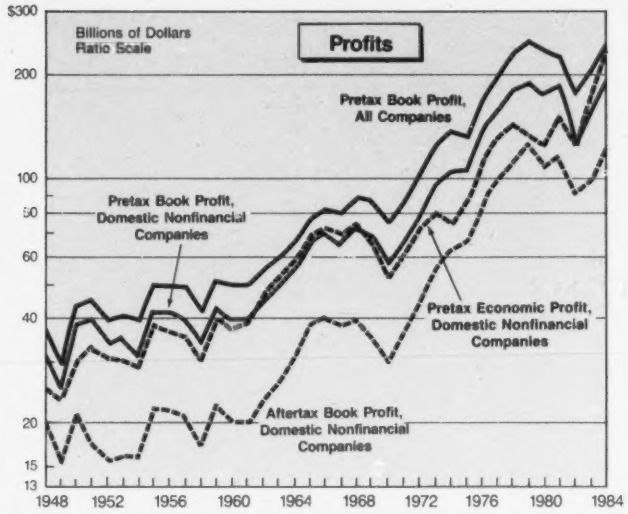


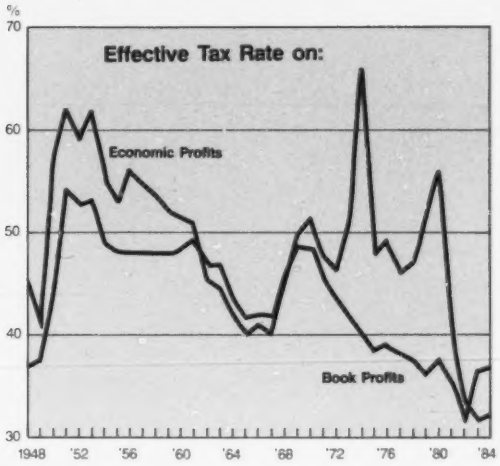


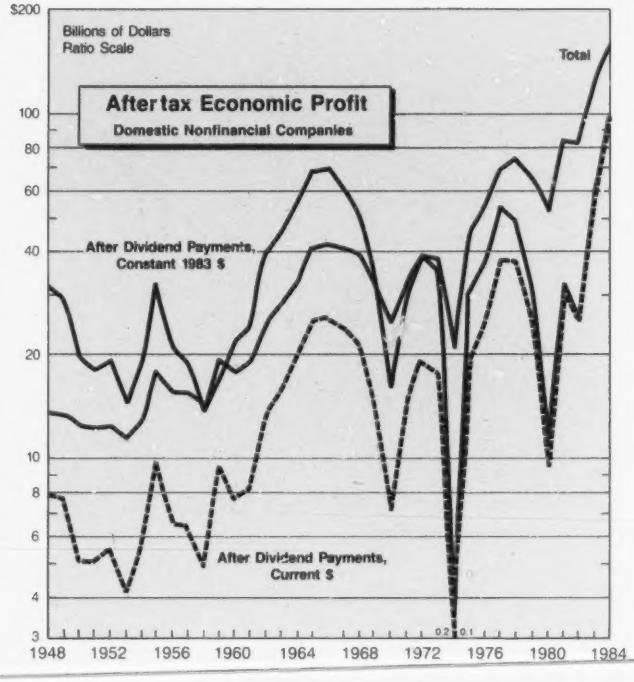


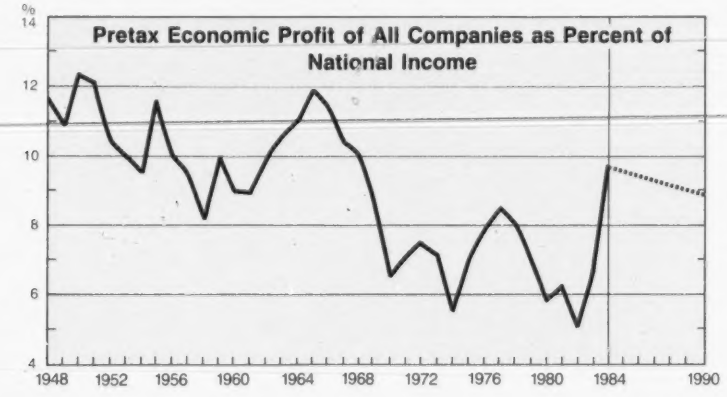


The aging of the population has already had a sharp impact on institutions of higher education (two- and four-year colleges, graduate and professional schools), and those institutions will continue for the rest of this decade to experience a relative dearth of traditional-age students. The population aged 18-24 will be 15 percent smaller in 1990 than it was in 1980. Enrollment in higher education will decline much less than that, however. Enrollment peaked at 12.4 million in 1982 and will run at about 12.1 million through the rest of the decade, as older students replace younger ones. Students aged 24 and under were 72 percent of the higher-education student body in 1970 but will comprise only 53 percent in 1990. The growth of older-student enrollment has boosted the percentage of part-timers. Part-time enrollment was 32 percent of the student body in 1970 but is expected to reach 46 percent in 1990. Enrollment in four-year institutions reached a high of 7.8 million in 1982, and is expected to decline to 7.1 million in 1990. But two-year colleges are booming, largely because of the enrollment of older students. In 1990, two-year colleges are expected to have 5 million students, about two-thirds of them part-timers.

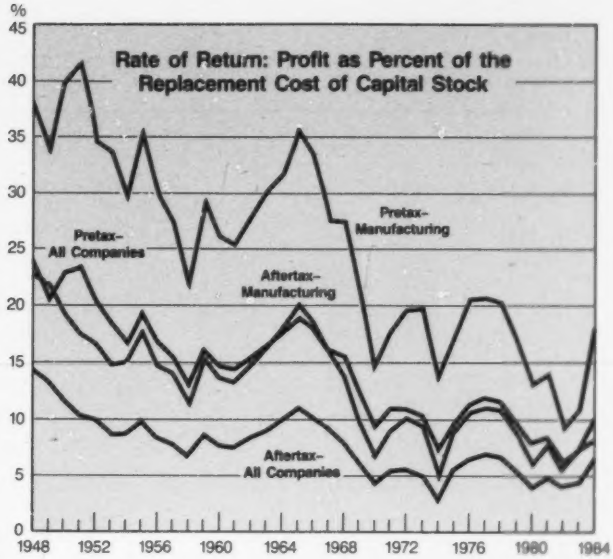


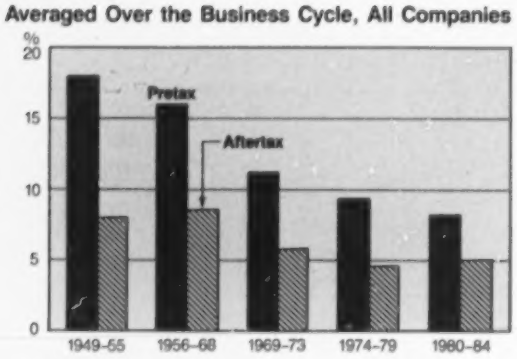




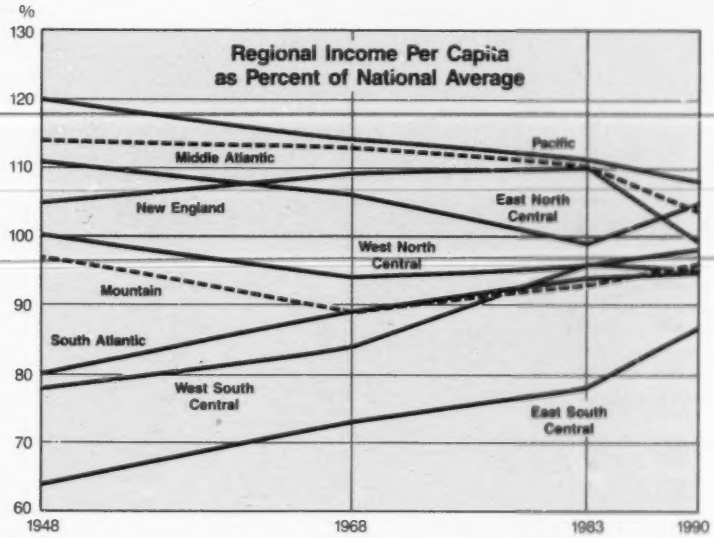


The less inflationary, less volatile environment projected for the years ahead will allow some recovery in the profits share of national income. Total pretax profits, as reported by companies, are projected to reach $380 billion in 1990. The projected profits reported by domestic nonfinancial companies are $307 billion; this figure excludes financial institutions' profits (much of which are profits of the Federal Reserve Banks) and the net surplus of U.S. owners' profits earned abroad over foreign owners' profits here. Pretax operating profits of domestic nonfinancial companies will be about $357 billion. Operating profits are reported profits adjusted to eliminate distortions due to accounting methods that undercharge (or occasionally overcharge) for the cost of inventories used up, and that charge depreciation of fixed capital at other than the estimated rate at which the capital is actually used up. During the inflationary 1970's, these accounting methods resulted in large undercharges and, thus, in large amounts of "illusory" profits. The picture will be different in years ahead. For one thing, in a less inflationary environment, accounting based on historical, book values will not result in such severe undercharges. Another factor is the recent change in the tax laws, allowing much faster depreciation of fixed capital and, in fact, resulting in over-depreciation rather than underdepreciation.

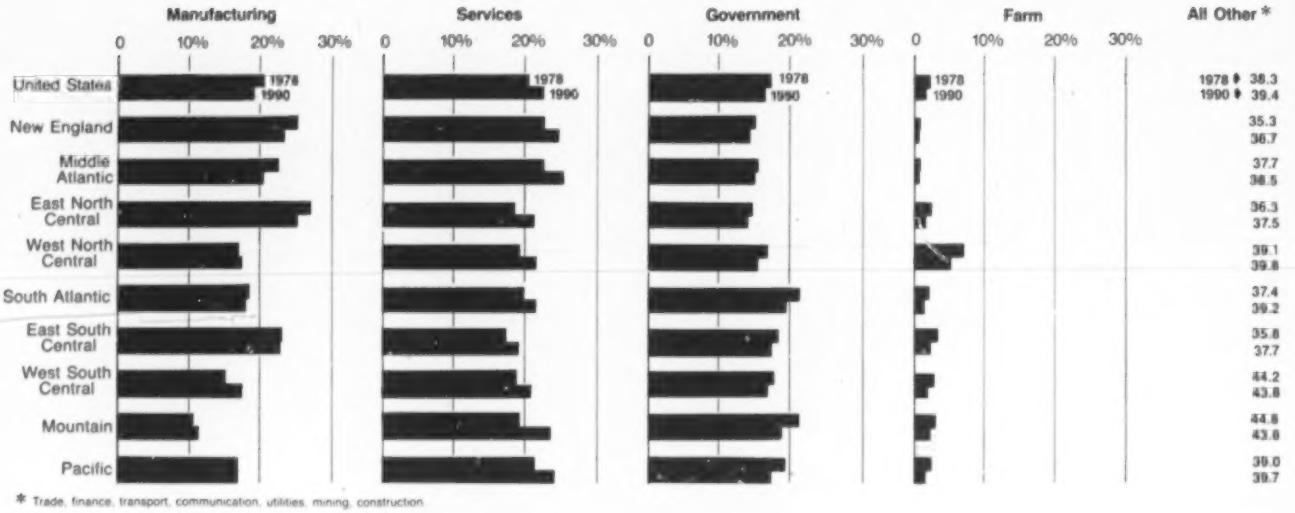




The American people will continue to move southward and westward. By 1990, Texas will be the second largest state, pushing New York down to third place, and Florida will be fourth. California stays on top by a wide margin (30.6 million people in 1990, compared with 20.7 million in Texas in that year). Regional economic growth rates will also diverge widely, with the result that regional rates of per capita economic growth will be fairly similar. Nonetheless, per capita incomes in the nation's regions will continue to converge, as the regions with relatively low per capita incomes continue to experience relatively rapid income growth. The industrial structure of the nation's regions will also become more similar. In 1990, 19.8 percent of U.S. employment will be in manufacturing, with regional figures running from 11.5 percent in the Mountain states to 25.7 percent in the East North Central states (industrial Great Lakes rim); in 1978, the U.S. average was 20.7 percent with a regional spread from 10.9 percent in the Mountains to 27.5 percent in the East North Central.

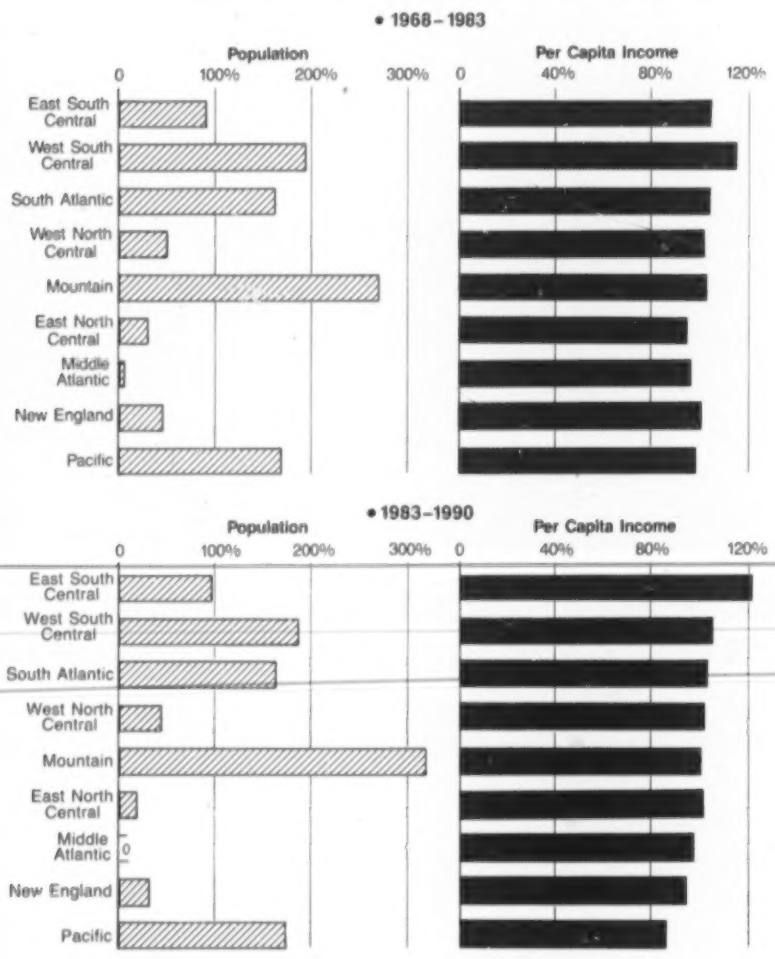


Percent Composition of Regional Employment

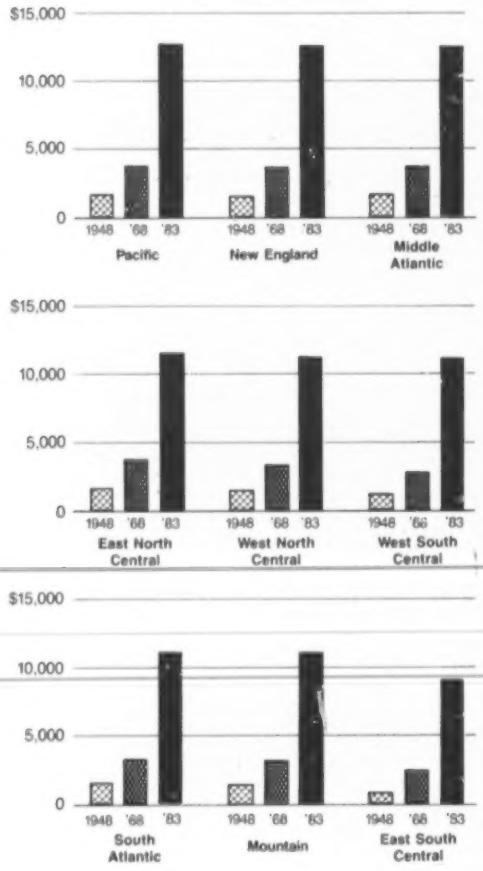


* Trade, finance, transport, communication, utilities, mining, construction

Regional Growth Rate as Percent of the National Rate



Per Capita Income



SOURCES: United States Departments of Commerce, Education, Energy, Health and Human Services, Labor; Federal Reserve Board; National Science Foundation; The Conference Board.